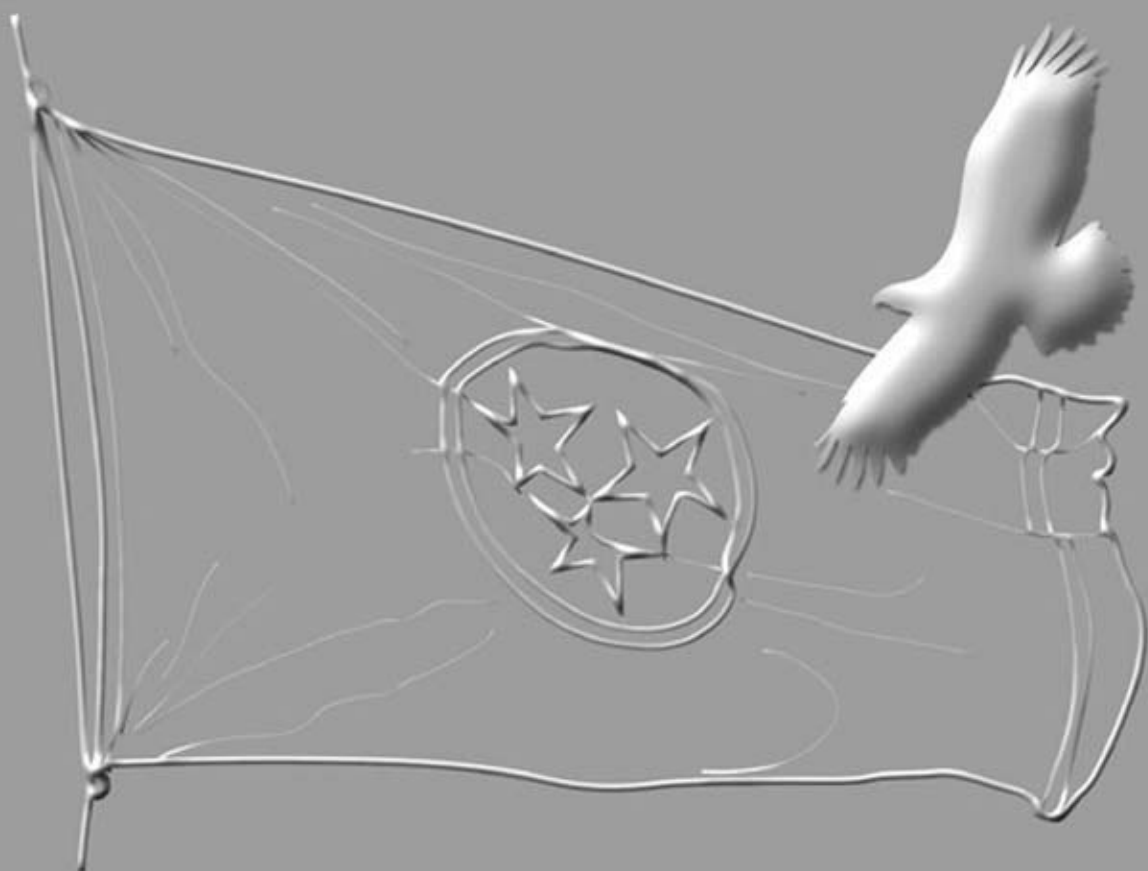


# TENNESSEE



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2002

# **Tennessee Comprehensive Annual Financial Report For the Year Ended June 30, 2002**

**DON SUNDQUIST, Governor**



**DEPARTMENT OF AUDIT**  
**JOHN G. MORGAN, Comptroller of the Treasury**  
Division of State Audit  
**ARTHUR A. HAYES, JR., Director**

**DEPARTMENT OF FINANCE AND ADMINISTRATION**  
**C. WARREN NEEL, Ph.D., Commissioner**  
Division of Accounts  
**JAN I. SYLVIS, Chief of Accounts**

**STATE OF TENNESSEE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2002**

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# INTRODUCTORY SECTION

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**STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0285**

**C. WARREN NEEL, Ph.D.  
COMMISSIONER**

January 17, 2003

The Honorable Don Sundquist  
Governor of the State of Tennessee

I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2002. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

In developing and modifying the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that evaluations occur within the above framework. I believe that the State's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

**PROFILE OF THE GOVERNMENT**

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 41,219 square miles and a population estimated to be 5.8 million. The State has three branches of government, the Executive, Legislative and Judicial. The Executive branch is headed by the Governor, who appoints commissioners to lead the various departments. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The financial reporting entity of the State includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable. The government provides a full range of services including education, health and social services, transportation, law, correction, safety, resources and regulation, and business and economic development.

In addition to internal controls, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Legislature. Activities of the general fund, special revenue funds (except the Supreme Court Boards, Fraud and Economic Crime, Community Development and the Dairy Promotion Board, accounted for as special revenue funds) and debt service fund are included in the annually appropriated budget. Budgetary control is maintained at the departmental level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of available balances are not released until budget revisions are approved or additional appropriations are made. Open encumbrances are reported as reservations of fund balance at June 30, 2002.



State statutes require an annual audit of all financial statements of the State. The accompanying financial statements have been examined by the Office of the Comptroller of the Treasury, Division of State Audit. Their examination was conducted in accordance with government auditing standards generally accepted in the United States of America, and their opinion appears elsewhere herein.

In conjunction with this examination, the Division of State Audit conducted an organization-wide audit as described in the Single Audit Act of 1984, as amended, and Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The audit included tests of compliance with applicable federal laws and regulations, as well as, a study and evaluation of internal controls, including internal accounting and administrative controls used in administering federal financial assistance programs. The results of this single audit are published under separate cover by the Division of State Audit.

## FACTORS AFFECTING FINANCIAL CONDITION

**Local economy.** The State's economic diversity has improved substantially over the last several years. Investments announced in new and expanding manufacturing businesses exceeded \$1 billion every year since 1983, and exceeded \$3 billion in the last four years. Announced manufacturing capital investments in 2001 were \$4.04 billion. This growth has created 15,804 new jobs in this year alone, and has had a positive effect on employment and the State's economy. Additionally, investments in headquarters, distribution and selected services grew to \$2.0 billion in 2001 and created 12,813 new jobs. For June 2002, the state unemployment rate of 5.2% was under the national average of 6.0%. The financial impact of these events is presented later in this letter. Based on current projections, the State's overall growth is expected to exceed the national average over the next several years. While having a positive impact, this growth also presents significant challenges for the State. If the present level of services is to be maintained and an ambitious program for major improvements in the educational system is to continue to be implemented, the State must continue to conservatively manage its financial resources.

The impressive U.S. economic expansion of the 1990's has ended with the U.S. in a recessionary period. As evidence, the real (inflation-adjusted) gross domestic product increased only .3 percent during the calendar year 2001 and increased 1.3 percent during the second quarter of 2002. Inflation concerns have given way to concerns about a recession; accordingly, the Federal Reserve has sharply reduced interest rates in recent months.

Tennessee's state government will take appropriate steps to ensure that the State is able to successfully manage its finances in the future.

**Financial planning.** The Administration produced a budget to fund the daily operations of State government along with some improvements for education, higher education, rate increases in TennCare, increases for homeland security, child care rate increases and improvements in foster care and adoption services. The budget was presented with a revenue proposal that raised the revenue required to achieve a balanced budget. However, the Administration was very open and willing to work with the Legislature on any other way to raise the necessary funding. The Legislature intensely debated the various revenue proposals, ultimately passing an increase in existing taxes in July 2002. Until the adoption of a complete budget, a significant portion of State employees was furloughed but called back into work on July 5, 2002. As a result, the State's credit rating remained stable at AA since there was no further use of non-recurring revenues to balance the budget.

The Administration continued its strategic planning process to close its term with very few changes from the strategic direction previously adopted. One of the Administration's goals is excellence in education. The Gateway testing program continues, as well as the State's accountability program to identify low performing schools. The Department of Education has identified 98 low-performing schools following the criteria associated with the federal program, "No Child Left Behind." Since that determination was made, the department has assigned an exemplary educator (retired teacher or principal) to each of the schools and by fiscal year-end, 36 of the low-performing schools had made adequate progress.

State government continues to improve its accessibility of services to citizens through the use of its portal. The following portal applications have been initiated: health license renewal, felony offender information lookup, Uniform Commercial Code data base search, registered trademark search, electronic filing of Hall Income Tax, child support payment summary, Tennessee corporation search, Tennessee business name search, and subscriber services for vehicle title and registration and moving violation records. The continued success of the State's portal, TennesseeAnytime, has been recognized on a national level. Brown University rated the portal number one in the nation because of its design and organization.

Another use of technology that improves the effectiveness of government is the development of a financial data warehouse. The Department of Finance and Administration developed a financial data warehouse to improve the reporting and analysis of the State's financial information. Revenue and expenditure information has been loaded and is being successfully summarized and retrieved via the web-based system. The project is beginning its third phase of development by adding more financial information to the warehouse. Subsequent phases will add more data that managers need to make informed decisions.

Due to events of September 11, 2001, the Governor has established an Office of Homeland Security. Despite the State's budget problems, the Governor has provided more than \$8 million in additional resources for the Departments of Agriculture, Commerce and Insurance, General Services, Health, Safety, and Veteran's Affairs. These additional resources will assist these agencies by providing additional equipment and training and in increasing lab-testing capabilities and security.

**Pension and other post-employment benefits.** The State sponsors a cost-sharing multiple employer defined benefit pension plan. Biennially, an independent actuary engaged by the State calculates the contribution rate that the State must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the State fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the State's conservative funding policy, as of July 1, 2001, the present value of the projected benefits earned by employees is funded at 99.6%.

The State also provides post-retirement health benefits for employees and retirees. For fiscal year ended June 30, 2002, there was an average of 4,915 retired employees receiving these benefits, which were financed on a pay-as-you-go basis. Generally Accepted Accounting Principles (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the State's pension arrangement and post-employment benefits can be found in Notes 6E and G in the notes to the financial statements.

**Cash Management.** The State Treasurer has pursued an aggressive cash management and investment program. One aspect of this, which we believe is unique to Tennessee, is our direct access into the Federal Reserve wire system. Through the State Trust of Tennessee, wire services in the federal system are available via a terminal located in the State's investment offices. This provides the State flexibility in investing and concentrating cash balances, pension fund assets, and in redeeming warrants and checks issued against the Treasury. During fiscal year 2002, uncommitted State funds were invested in short-term collateralized deposits as follows (averaged): certificates of deposit (29%); repurchase agreements (2%); commercial paper (28%); U.S. Treasuries (40%); and money market accounts (1%). The composite average yield on these investments was 2.67%, down from 5.94% last year.

**Risk Management.** In 1989, the State initiated a loss prevention program. A loss prevention specialist has been employed to assist the State in analyzing the underlying cause of losses and in recommending measures to minimize the reoccurrence of similar losses. The State purchases commercial insurance for real property, flood, earthquake and builder's risk losses. The insurance policy deductibles vary from \$1 million to \$5 million by type of risk coverage. A fund balance designation of \$5 million for deductibles and \$1.356 million for incurred losses has been established in the General Fund.

## OTHER INFORMATION

**Securities and Exchange Commission Disclosures.** The State Funding Board, the Tennessee State School Bond Authority, and the Tennessee Local Development Authority have each entered into Continuing Disclosure Undertakings with respect to certain debt issues. These Undertakings were made for the benefit of the holders of the debt pursuant to U.S. Securities and Exchange Commission Rule 15c2-12. The issuers have covenanted to provide certain annual financial information, including audited financial statements, as well as, certain additional financial and operating data. With the exceptions of information related to Tennessee Consolidated Retirement System and of certain local government financial information related to the Tennessee Local Development Authority provided to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) under separate cover, financial and operating data required pursuant to the Undertakings is located in this Comprehensive Annual Financial Report. The reader should use the index located at the end of this report to identify the specific page where the information is presented.

**Awards.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its Comprehensive Annual Financial Report for the year ended June 30, 2001. This is the twenty-third consecutive year that the State has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Tennessee Consolidated Retirement System has received this award for fourteen consecutive years for its Comprehensive Annual Financial Report.

**Acknowledgments.** The preparation of the comprehensive annual financial report was made possible by the dedication of the entire staff of the Division of Accounts in the Department of Finance and Administration. This report could not have been prepared without the cooperation of all state agencies and branches.

Respectfully submitted,

/s/ C. Warren Neel

C. Warren Neel, Ph.D., Commissioner  
Department of Finance and Administration

CWN/jmc



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

January 17, 2003

To the Members of the General Assembly  
of the State of Tennessee  
and  
The Honorable Don Sundquist, Governor  
of the State of Tennessee

Ladies and Gentlemen:

In accordance with Section 4-3-304, Tennessee Code Annotated, transmitted herewith is the auditor's report on the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2002.

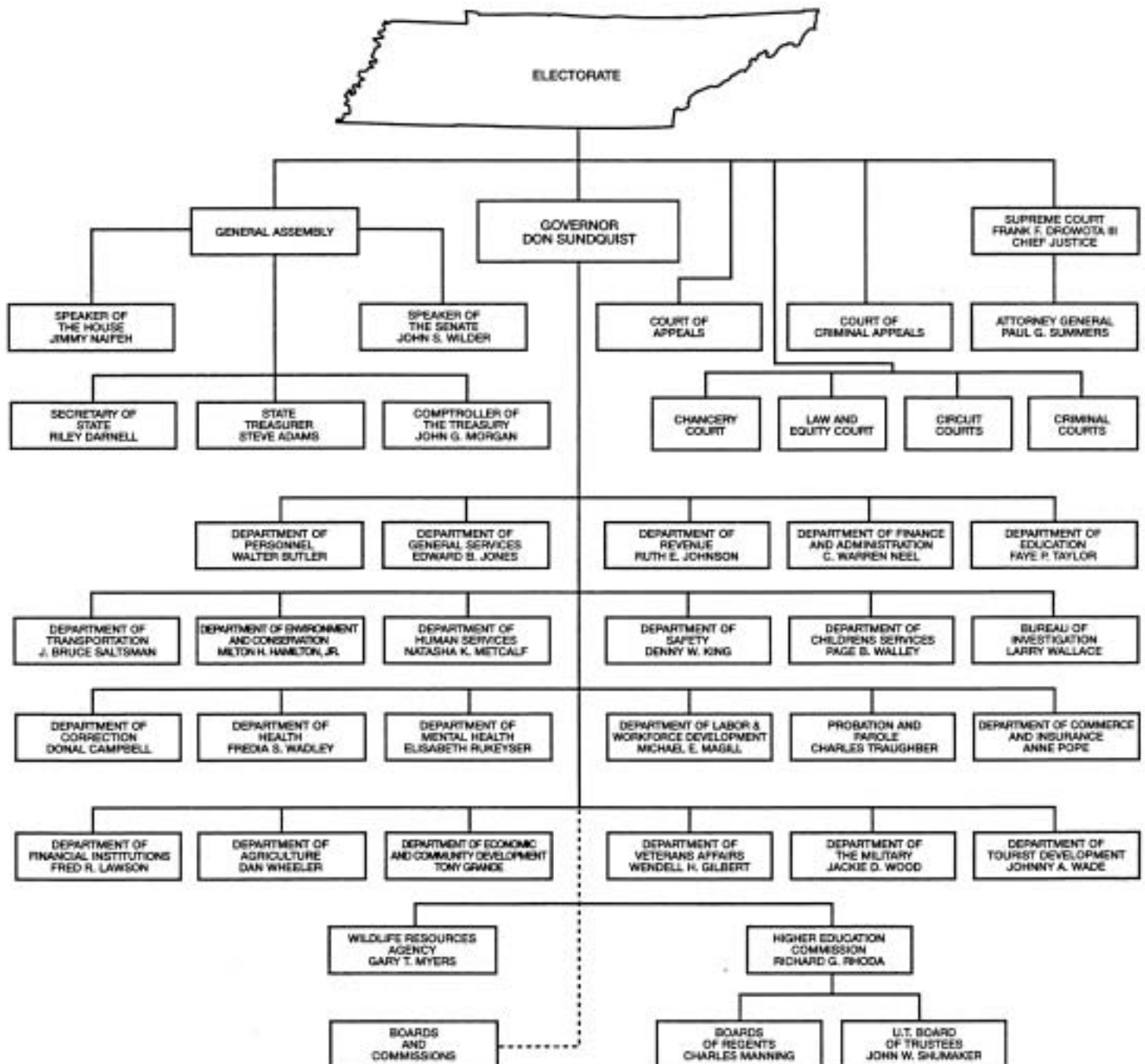
Respectfully,

/s/ John G. Morgan

John G. Morgan  
Comptroller of the Treasury

JGM/jmc

# STATE OF TENNESSEE ORGANIZATION CHART As of June 30, 2002



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of  
Tennessee

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Timothy D. Dwyer*  
President

*Jeffrey L. Esser*  
Executive Director



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# **FINANCIAL SECTION**

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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

**SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

**Independent Auditor's Report**

January 17, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the basic financial statements, the State of Tennessee adopted the provisions of Governmental Accounting Standards Board Statements 33, *Accounting and Financial Reporting for Nonexchange Transactions*; 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No. 34*; 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus-an amendment of GASB Statements No. 21 and No. 34*; and 38, *Certain Financial Statement Note Disclosures*. This resulted in changes to the format and content of the financial statements.

The management's discussion and analysis, infrastructure assets reported using the modified approach, and the schedule of revenues, expenditures and changes in fund balances – budget and actual are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical and economic data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical and economic data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue our report dated January 17, 2003, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts, and grants in the *Tennessee Single Audit Report*. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

Sincerely,

/s/ Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/jmc



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the State's) financial performance provides an overview of the State's financial activities for the year ended June 30, 2002. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages I-IV of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

Because fiscal year ending June 30, 2002, is the first year in which the State implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this discussion and analysis does not reflect many comparisons with the previous year. Future financial reports will provide more analyses of the current year's financial data compared with the prior year.

### FINANCIAL HIGHLIGHTS

- **Government-wide:**

Net Assets - The assets of the State exceeded its liabilities at June 30, 2002, by \$20.1 billion (reported as net assets). Of this amount, \$100.7 million may be used to meet the State's obligations not funded by restricted net assets. However, \$18.1 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

Changes in Net Assets - The State's net assets increased by \$710.7 million. Most of this increase results from the State's decision to utilize the modified approach for reporting infrastructure capital assets. Because of this decision, the State capitalized infrastructure expenditures of \$1.257 billion and did not record depreciation expense. Other capital assets are depreciated.

Component units - Component units reported net assets of \$3.1 billion, an increase of \$98.5 million.

- **Fund Level:**

At June 30, 2002, the State's governmental funds reported combined ending fund balances of \$1.5 billion, a decrease of \$558 million (see discussion on page 10) in comparison to the prior year. Of the combined fund balance approximately \$196 million is available for spending at management's discretion (unreserved fund balance), however \$178 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

The State's total debt decreased \$57.2 million during the fiscal year to \$1.26 billion. This reduction is due to the tight budget situation faced by the State, in which capital projects have not been authorized in the legislative process.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 and 18-19) provide information about the activities of the State as a whole (government-wide statements) and present a longer-term view of the State's finances. Fund financial statements start on page 22. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.

## Reporting the State as a Whole

### *The Statement of Net Assets and the Statement of Activities*

Our analysis of the State as a whole begins on page 7. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The Statement of Net Assets displays all the State's financial and capital resources in the format of assets minus liabilities equal net assets. The Statement of Activities reports the State's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or tax revenue) funds the government operations. The State functions that are identified on this statement correspond to the functions used for budgetary purposes:

- Governmental activities—general government; education; health and social services; law, justice and public safety; recreation and resource development; regulation of business and professions; transportation; state shared taxes paid to local governments; and interest on long-term debt.
- Business-type activities—employment security, insurance programs, loan programs and other.
- Component units—significant component units include the Tennessee Board of Regents, the University of Tennessee and the Tennessee Housing Development Agency. Although these and other smaller entities are legally separate, these "component units" are important because the State is financially accountable for them.

## Reporting the State's Most Significant Funds

### *Fund financial statements*

Our analysis of the State's major funds begins on page 10. The fund financial statements begin on page 22 and provide detailed information about the most significant funds—not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds—governmental and proprietary—use different accounting approaches.

Governmental funds focus on the near-term inflows and outflows of funds and the balances left at year-end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the State's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in the Statement of Net Assets are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

Proprietary funds report the government services that charge service fees to its customers. Proprietary funds include enterprise funds (serving citizens) and internal service funds (serving state agencies). The enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail; whereas the internal service funds are included in the governmental activities.

**Notes to the financial statements.** Notes to the financial statements are also included and provide necessary information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units.

## The State as Trustee

### *Reporting the State's Fiduciary Responsibility*

Fiduciary funds are used to report resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the State cannot use these assets to finance its operations. Instead, the State is responsible for using the fiduciary assets for the fiduciary fund's intended purposes.

## THE STATE AS A WHOLE

### *Government-wide Financial Analysis*

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by \$20.095 billion as of June 30, 2002.

By far the largest portion of the State's net assets (90%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### State of Tennessee Net Assets (Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	\$ 2,916,564	\$ 1,350,984	\$ 4,267,548
Capital assets	<u>18,644,336</u>		<u>18,644,336</u>
Total Assets	<u>21,560,900</u>	<u>1,350,984</u>	<u>22,911,884</u>
Current and other liabilities	1,114,414	67,445	1,181,859
Long-term liabilities	<u>1,621,111</u>	<u>14,000</u>	<u>1,635,111</u>
Total liabilities	<u>2,735,525</u>	<u>81,445</u>	<u>2,816,970</u>
Net assets:			
Invested in capital assets, net of related debt	18,089,294		18,089,294
Restricted net assets	665,673	1,239,236	1,904,909
Unrestricted net assets	<u>70,408</u>	<u>30,303</u>	<u>100,711</u>
Total net assets	<u>\$ 18,825,375</u>	<u>\$ 1,269,539</u>	<u>\$ 20,094,914</u>

An additional portion of the State's net assets (9.5 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets (\$100.711 million) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted.

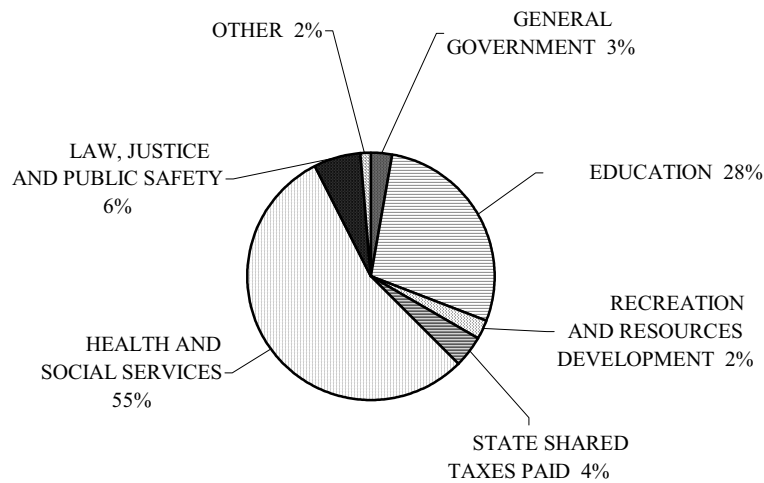
At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, for the government as a whole, and for its separate governmental and business-type activities.

The State's net assets increased by \$710.7 million during the year ended June 30, 2002. As previously discussed most of this increase was attributable to the State's decision to adopt the modified approach to infrastructure. Because of this decision, the State capitalized \$1.257 billion in infrastructure expenditures and did not record depreciation expense. Also, Tennessee does not fund highway construction by issuing debt, but it is funded primarily with fuel taxes and federal grants in the Highway Fund. Most of the remaining loss of \$546.3 million resulted from operations in the General Fund, which is discussed later in this MD&A.

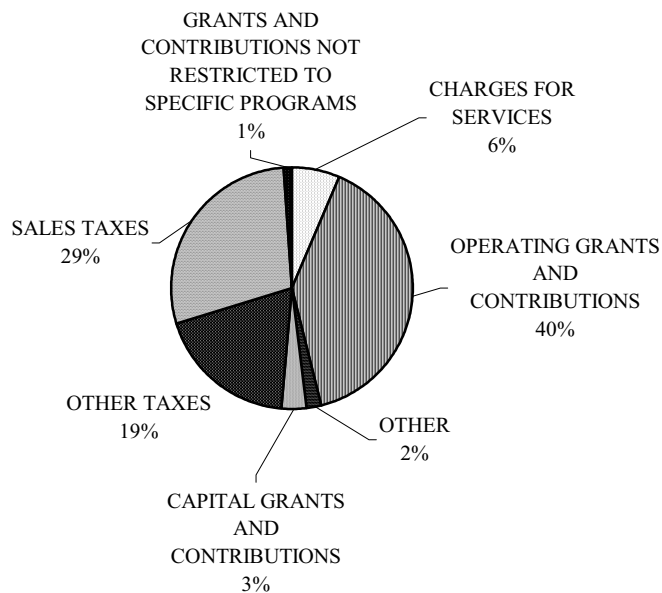
State of Tennessee  
Changes in Net Assets  
(Expressed in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,038,265	\$ 688,476	\$ 1,726,741
Operating grants and contributions	6,455,022	342,374	6,797,396
Capital grants and contributions	560,074		560,074
General revenues:			
Sales Taxes	4,656,105		4,656,105
Other taxes	3,061,576		3,061,576
Grants and contributions not restricted to specific programs	159,511		159,511
Other	<u>320,108</u>		<u>320,108</u>
Total revenues	<u>16,250,661</u>	<u>1,030,850</u>	<u>17,281,511</u>
Expenses:			
General government	448,608		448,608
Education	4,326,480		4,326,480
Health and social services	8,499,713		8,499,713
Law, justice and public safety	919,007		919,007
Recreation and resources development	362,068		362,068
Regulation of business and professions	59,493		59,493
Transportation	51,476		51,476
State shared taxes paid to local governments	686,515		686,515
Interest on long-term debt	120,925		120,925
Employment security		739,008	739,008
Insurance programs		353,534	353,534
Loan programs		2,585	2,585
Other		<u>1,373</u>	<u>1,373</u>
Total expenses	<u>15,474,285</u>	<u>1,096,500</u>	<u>16,570,785</u>
Increase (decrease) in net assets before transfers	776,376	(65,650)	710,726
Transfers	<u>(16,819)</u>	<u>16,819</u>	
Increase (decrease) in net assets	759,557	(48,831)	710,726
Net assets, July 1, 2001	<u>18,065,818</u>	<u>1,318,370</u>	<u>19,384,188</u>
Net assets, June 30, 2002	<u>\$ 18,825,375</u>	<u>\$ 1,269,539</u>	<u>\$ 20,094,914</u>

### EXPENSES BY FUNCTION - GOVERNMENTAL ACTIVITIES



### REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Net assets of the State's business-type activities decreased by \$48.831 million. This decrease was mainly caused by a \$77.7 million decrease in the Employment Security Fund, which resulted from the payment of additional unemployment claims necessitated by the downturn in the national economy.



## THE STATE'S FUNDS

Tax collections were down for the year and expenditures for the TennCare program increased dramatically. Details are in the following section. As a result, the Legislature formulated a plan to transfer certain reserves to the General Fund and authorized use of Revenue Fluctuation funds to supplant an anticipated shortfall. The following transfers were made:

Special Revenue Funds	
Highway	\$ 30.0 million
Criminal Injuries	76.5 million
Other	12.2 million
Component Units	
Tennessee Housing Development Agency	<u>35.4 million</u>
Total transfer to General Fund	\$154.1 million

The Revenue Fluctuation funds did not have to be used and remain intact at \$178 million or 1.6% of General Fund expenditures. An additional \$63.7 million in General Fund reserves were used to help close the budgetary gap. Tobacco settlement funds totaling \$180.7 million were collected in fiscal year 2002 and were used to fund the fiscal year 2002 budget shortfall.

General Fund revenue collections remained steady; however, some revenue sources varied significantly from the previous year. Franchise and excise tax collections were down 13.6% due to the downturn in the national economy. The Hall Income Tax collections were down 14.2%, which was also attributable to the significantly decreased interest rates paid to individuals. These variations caused an under-collection of \$150 million in tax collections. The State's interest income was half what it was in 2001 due to lower interest rates. The State experienced a 9% increase or \$444 million in federal revenue due to an increase in expenditures within the TennCare program. The overall result of these variations showed little change in total revenues collected from the previous year.

General Fund expenditures increased approximately \$660 million or 6.2%. Most of the increase is due to increased expenditures in the TennCare program. The increase was attributable to a rate increase for the managed care organizations, an increase in the cost of pharmaceuticals and increased costs in the mental retardation and long-term care programs.

The total plan net assets of the pension trust fund were \$23.0 billion, down over \$690 million from the prior year. As a result of the poor performance of the financial markets, the pension trust funds incurred a net investment loss of \$378.8 million.

The decrease in plan net assets, as seen over the past two fiscal years, is the result of net negative investment income due primarily to the depreciation in the fair value of investments, caused by unfavorable equity market conditions. It must be recognized that the losses during the last two years, as compared to the 7.5 percent actuarial earnings assumption, will put upward pressure on the employer contribution rate at the next actuarial valuation set for July 1, 2003, as well as subsequent valuations.

Education Fund federal revenue collections increased approximately \$30 million or 6% from fiscal year 2001. The majority of the increase was due to an increase in federal funds per student for special education programs.

The fund balance increased by \$19 million for the Education Fund. The increase is due to the increased reserves for continuing appropriations for state testing programs, special schools and the Geier Desegregation Settlement. These increases were funded through a transfer from the General Fund.

Federal revenue collections increased in the Highway Fund by approximately \$33 million from fiscal year 2001. The increase occurred in the areas of interstate construction and bridge replacements.

For fiscal year 2002, the Teacher Group Insurance and Local Government Group Insurance Enterprise Fund operations resulted in deficit fund equity at June 30 of \$12.05 million and \$10.674 million, respectively. The Employee Group Insurance Fund, an Internal Service Fund, also resulted in a deficit condition of \$19.158 million. Escalating medical and insurance costs have caused the deficits in each of these self-insured programs. Rate hikes went into effect January 1, 2003, to address this problem.

## General Fund Budgetary Highlights

Federal revenue estimates from original to final budget increased by \$517.505 million primarily due to an increase in federal TennCare participation. In addition, significant variances between original and final budget were noted for TennCare and for Human Services. The TennCare program experienced an increase in funding from original to final budget in the amount of \$499.319 million. This was the result of significant increases in various costs within the program, as discussed on the previous page. The Department of Human Services experienced an increase in funding from original to final budget in the amount of \$85.9 million primarily due to increased federal funding in the food stamps program.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The State's investment in capital assets at June 30, 2002 of \$18.644 billion, net of \$888 million accumulated depreciation, consisted of the following:

Capital Assets—Primary Government  
Governmental Activities  
(Expressed in Thousands)

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Land	\$ 703,022	\$ 546,273
Infrastructure	14,555,703	13,816,664
Construction in progress	2,157,964	1,793,174
Structures and improvements	1,637,255	1,578,833
Machinery and equipment	<u>478,008</u>	<u>465,102</u>
Subtotal	19,531,952	18,200,046
Accumulated depreciation	<u>(887,616)</u>	<u>(828,552)</u>
Total	<u>\$ 18,644,336</u>	<u>\$ 17,371,494</u>

Capital assets, including those under construction, changed from fiscal year 2001 to 2002 by approximately 7.3 percent. The change was primarily due to ongoing construction and completion of segments of infrastructure—highways and bridges. Construction in progress for highways and bridges increased by \$1.18 billion and decreased (projects completed and capitalized) by \$782.7 million. Infrastructure right-of-way acreage increased the land classification by \$120.649 million. The structures and improvements increase of \$58.4 million consisted largely of a major renovation at Pickwick Landing State Park (\$13.8 million); additions to prisons (\$23.3 million); renovation at mental health, education, and children's services facilities (\$2.1 million); construction of I-81 Welcome Center and Transportation Management Center (\$5.7 million); and the Wildlife Resources Region 4 Headquarters renovation (\$2.6 million). The net change in machinery and equipment of \$12.9 million resulted primarily from replacing aged equipment.

In accordance with GASB 34, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,000 bridges.

The decision to use the modified approach was essentially made because the State has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 87), indicated that bridges were rated at almost 5 points above the State's established condition level and roadways were almost 13 points above the State's benchmark level.

The State's capital outlay budget for the 2002-2003 fiscal year mirrors that of the past few years. Since very few new projects have been approved, the capital outlay budget consists of expenditures for maintenance of existing facilities (state and higher education institutions), projects funded by the Federal Government, and statutory requirements for prisons' physical plant maintenance and additions.

## Debt Administration

In accordance with the Constitution, the State has the authority to issue general obligation debt that is backed by the full faith and credit of the State. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding \$100 thousand (for new construction) and maintenance to existing facilities. The State issues Commercial Paper as a short-term financing mechanism for capital purposes and the Commercial Paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

<u>Purpose</u>	<u>Unissued June 30, 2002</u>
Highway	\$ 641,500
Higher Education	19,695
Environment and Conservation	18,059
General Government	388,296
Local Development Authority	23,300
Other	<u>480</u>
Total	<u>\$ 1,091,330</u>

More detail of the activity during the fiscal year is presented in Note 5I to the financial statements.

The State's outstanding general obligation debt consists of the following (expressed in thousands):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Bonds, net	\$ 1,134,881	\$ 1,049,456	\$ 13,924	\$ 17,213
Commercial Paper	<u>110,700</u>	<u>250,000</u>	<u>          </u>	<u>          </u>
Total	<u>\$ 1,245,581</u>	<u>\$ 1,299,456</u>	<u>\$ 13,924</u>	<u>\$ 17,213</u>

The State issued \$150.6 million in tax-exempt and \$13.48 million in taxable bonds during the fiscal year. More than half of the outstanding debt has been issued either for capital projects of two of the State's major Component Units—University of Tennessee and Tennessee Board of Regents—or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5I to the financial statements.

The State's bond rating has slipped in recent years because the raters perceive an imbalance in the State's revenue producing structure. The State is rated AA, Aa2, and AA by Fitch Investors Service, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2002, the State's annual debt service limit of \$512.464 million was well above the debt service required \$142.075 million, with a legal debt service margin of \$370.389 million.

## FACTORS THAT WILL AFFECT THE FUTURE

Factors affecting our State's financial future include new legislation and outcomes from lawsuits. The Tennessee State Legislature passed two bills that will have a significant impact on the State's future.

The Tax Reform Act of 2002 introduced a variety of tax increases to fund State government and is expected to generate an estimated \$938 million in tax revenue. The bill increased the State sales tax on most non-food items from 6% to 7% effective July 15, 2002. The State sales tax rate on food remains at 6%. The bill allowed for a maximum combined state and local sales tax rate of 9.75%. In addition, the tax cap on the sale or use of any single article was raised from \$1,600 to \$3,200. The bill also increased excise tax from 6% to 6.5%. Effective September 2002, the business tax rate was increased by 50% with all increases payable to the State as opposed to local governments. In addition, taxes on alcoholic beverages were increased by 10% and tobacco taxes were increased from 13 cents to 20 cents per pack. Other wholesale tobacco products experienced a 10% tax increase. The coin-amusement tax was repealed and replaced with a new law that greatly broadened the number of machines subject to the tax.

The second bill passed that will have significance in the future was one to initiate a performance based budgeting approach for State departments. The bill requires State departments to develop a strategic plan and use performance measures to determine the efficacy of its programs. This information will be used in the budgeting process and also be used subsequently to evaluate programs.

The State lost an appeal about sufficiency of teacher pay equity provided in the State's funding model for public education. The State Legislature will address the teacher pay funding issue in a future session.

The Legislature authorized a lottery referendum to be placed on the November 2002 ballot. The referendum passed, which gives the Legislature the authority to enact a lottery.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 8<sup>th</sup> Avenue North, Suite 1400, Nashville, TN 37243.



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# **BASIC FINANCIAL STATEMENTS**

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STATE OF TENNESSEE  
STATEMENT OF NET ASSETS  
JUNE 30, 2002

(Expressed in Thousands)

	PRIMARY GOVERNMENT			TOTAL COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	\$ 1,058,707	\$ 178,956	\$ 1,237,663	\$ 693,045
CASH ON DEPOSIT WITH FISCAL AGENT	1,350	725,788	727,138	37
INVESTMENTS	200,522		200,522	881,524
INVESTMENTS WITH FISCAL AGENT				4,442
RECEIVABLES, net	1,522,089	87,467	1,609,556	426,345
INTERNAL BALANCES	17,492	(17,492)		
DUE FROM PRIMARY GOVERNMENT				23,915
DUE FROM COMPONENT UNITS	41,222	17	41,239	
INVENTORIES, at cost	27,191	3	27,194	16,618
PREPAYMENTS	554		554	5,384
LOANS RECEIVABLE	26,710	376,164	402,874	2,066,627
LEASE RECEIVABLE	4,229		4,229	
DEFERRED CHARGES AND OTHER	1,625	81	1,706	20,372
RESTRICTED ASSETS:				
CASH AND CASH EQUIVALENTS	14,873		14,873	390,950
INVESTMENTS				210,323
RECEIVABLES, net				2,470
CAPITAL ASSETS:				
LAND, at cost	703,022		703,022	123,560
INFRASTRUCTURE	14,555,703		14,555,703	176,818
STRUCTURES AND IMPROVEMENTS, at cost	1,637,255		1,637,255	2,257,805
MACHINERY AND EQUIPMENT, at cost	478,008		478,008	645,295
LESS-ACCUMULATED DEPRECIATION	(887,616)		(887,616)	(1,404,583)
CONSTRUCTION IN PROGRESS	2,157,964		2,157,964	198,090
<b>TOTAL ASSETS</b>	<b>21,560,900</b>	<b>1,350,984</b>	<b>22,911,884</b>	<b>6,739,037</b>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES	838,752	62,013	900,765	244,503
DUE TO PRIMARY GOVERNMENT				41,239
DUE TO COMPONENT UNITS	22,165		22,165	
DEFERRED REVENUE	249,195	5,432	254,627	98,023
OTHER	4,302		4,302	135,800
NONCURRENT LIABILITIES:				
DUE WITHIN ONE YEAR	204,416	2,882	207,298	330,287
DUE IN MORE THAN ONE YEAR	1,416,695	11,118	1,427,813	2,821,387
<b>TOTAL LIABILITIES</b>	<b>2,735,525</b>	<b>81,445</b>	<b>2,816,970</b>	<b>3,671,239</b>
<b>NET ASSETS</b>				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	18,089,294		18,089,294	1,565,755
RESTRICTED FOR:				
HIGHWAY	171,552		171,552	
DEBT SERVICE	1,964		1,964	5,939
CAPITAL PROJECTS	9,859		9,859	26,983
SINGLE FAMILY BOND PROGRAMS				348,167
OTHER	260,241	1,239,236	1,499,477	344,747
PERMANENT:				
EXPENDABLE	13,607		13,607	
NONEXPENDABLE	208,450		208,450	296,186
UNRESTRICTED	70,408	30,303	100,711	480,021
<b>TOTAL NET ASSETS</b>	<b>\$ 18,825,375</b>	<b>\$ 1,269,539</b>	<b>\$ 20,094,914</b>	<b>\$ 3,067,798</b>

The notes to the financial statements are an integral part of this statement.



STATE OF TENNESSEE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT:</b>				
GOVERNMENTAL ACTIVITIES:				
GENERAL GOVERNMENT	\$ 448,608	\$ 281,379	\$ 60,130	\$ 357
EDUCATION	4,326,480	10,155	531,915	
HEALTH AND SOCIAL SERVICES	8,499,713	195,421	5,665,499	
LAW, JUSTICE AND PUBLIC SAFETY	919,007	341,764	61,516	1,713
RECREATION AND RESOURCES DEVELOPMENT	362,068	110,033	106,968	16,015
REGULATION OF BUSINESS AND PROFESSIONS	59,493	86,468	1,123	
TRANSPORTATION	51,476	13,045	27,871	541,989
STATE SHARED TAXES PAID TO LOCAL GOVERNMENTS	686,515			
INTEREST ON LONG-TERM DEBT	120,925			
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>15,474,285</b>	<b>1,038,265</b>	<b>6,455,022</b>	<b>560,074</b>
BUSINESS-TYPE ACTIVITIES:				
EMPLOYMENT SECURITY	739,008	335,723	325,582	
INSURANCE PROGRAMS	353,534	338,085	1,003	
LOAN PROGRAMS	2,585	13,449	15,789	
OTHER	1,373	1,219		
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,096,500</b>	<b>688,476</b>	<b>342,374</b>	
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 16,570,785</b>	<b>\$ 1,726,741</b>	<b>\$ 6,797,396</b>	<b>\$ 560,074</b>
<b>COMPONENT UNITS:</b>				
HIGHER EDUCATION INSTITUTIONS	\$ 2,751,867	\$ 878,399	\$ 742,194	\$ 140,824
LOAN PROGRAMS	362,431	144,661	175,741	
OTHER	86,005	28,649	48,855	
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 3,200,303</b>	<b>\$ 1,051,709</b>	<b>\$ 966,790</b>	<b>\$ 140,824</b>
GENERAL REVENUES:				
TAXES:				
SALES AND USE				
FUEL				
BUSINESS				
OTHER				
PAYMENTS FROM PRIMARY GOVERNMENT				
GRANTS AND CONTRIBUTIONS NOT RESTRICTED TO SPECIFIC PROGRAMS				
CONTRIBUTIONS TO PERMANENT FUNDS				
INVESTMENT EARNINGS				
MISCELLANEOUS				
TRANSFERS				
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>				
CHANGE IN NET ASSETS				
NET ASSETS, JULY 1				
NET ASSETS, JUNE 30				

The notes to the financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
\$ (106,742)		\$ (106,742)	
(3,784,410)		(3,784,410)	
(2,638,793)		(2,638,793)	
(514,014)		(514,014)	
(129,052)		(129,052)	
28,098		28,098	
531,429		531,429	
(686,515)		(686,515)	
<u>(120,925)</u>		<u>(120,925)</u>	
<u>(7,420,924)</u>		<u>(7,420,924)</u>	
	\$ (77,703)	(77,703)	
	(14,446)	(14,446)	
	26,653	26,653	
	<u>(154)</u>	<u>(154)</u>	
	<u>(65,650)</u>	<u>(65,650)</u>	
<u>(7,420,924)</u>	<u>(65,650)</u>	<u>(7,486,574)</u>	
			\$ (990,450)
			(42,029)
			<u>(8,501)</u>
			<u>(1,040,980)</u>
4,656,105		4,656,105	
787,132		787,132	
1,783,486		1,783,486	
490,958		490,958	
			1,074,518
159,511		159,511	10,270
354		354	24,035
37,802		37,802	25,982
281,952		281,952	4,739
<u>(16,819)</u>	<u>16,819</u>		
<u>8,180,481</u>	<u>16,819</u>	<u>8,197,300</u>	<u>1,139,544</u>
759,557	(48,831)	710,726	98,564
<u>18,065,818</u>	<u>1,318,370</u>	<u>19,384,188</u>	<u>2,969,234</u>
\$ <u>18,825,375</u>	\$ <u>1,269,539</u>	\$ <u>20,094,914</u>	\$ <u>3,067,798</u>



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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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General Fund – The General Fund is maintained to account for all governmental financial resources and transactions not accounted for in another fund.

Education Fund - This fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

Highway Fund - This fund is maintained to account for revenues and expenditures associated with programs of the Department of Transportation. Funding of these programs is accomplished primarily from dedicated highway user taxes and funds received from the various federal transportation agencies. All federal funds accruing to the Highway Fund are received on a reimbursement basis covering costs incurred. It is the State's practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. This front-end state funding, together with multi-year disbursements on most projects, results in large cash balances in this fund. Effective July 1, 1986, the Department of Transportation began earning interest on certain unspent monies for a new highway construction program, while the General Fund earns the interest on the other highway program monies.

Nonmajor Governmental Funds – Nonmajor governmental funds are presented by fund type in the supplementary section.

STATE OF TENNESSEE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	GENERAL	EDUCATION	HIGHWAY	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	\$ 230,043	\$ 10	\$ 193,391	\$ 389,797	\$ 813,241
INVESTMENTS				200,522	200,522
RECEIVABLES, net	954,258	408,928	139,113	15,817	1,518,116
DUE FROM OTHER FUNDS	229,691	3,156	8	1	232,856
DUE FROM COMPONENT UNITS	39,492	349		1,236	41,077
INVENTORIES, at cost	15,462		6,567		22,029
PREPAYMENTS	254			14	268
DEFERRED CHARGES AND OTHER			2,688		2,688
LOANS RECEIVABLE, net	280		2,563	23,867	26,710
RESTRICTED ASSETS:					
CASH AND CASH EQUIVALENTS				14,357	14,357
TOTAL ASSETS	<u>\$ 1,469,480</u>	<u>\$ 412,443</u>	<u>\$ 344,330</u>	<u>\$ 645,611</u>	<u>\$ 2,871,864</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
ACCOUNTS PAYABLE AND ACCRUALS	\$ 543,761	\$ 103,757	\$ 71,327	\$ 41,020	\$ 759,865
DUE TO OTHER FUNDS	12,283	211,814	1,255	307	225,659
DUE TO COMPONENT UNITS	8,682			13,483	22,165
DEFERRED REVENUE	273,088	55,166	8,320	14,789	351,363
OTHER	125		4,176	1	4,302
TOTAL LIABILITIES	<u>837,939</u>	<u>370,737</u>	<u>85,078</u>	<u>69,600</u>	<u>1,363,354</u>
<b>FUND BALANCES:</b>					
RESERVED FOR:					
RELATED ASSETS	18,384		6,567	14	24,965
ENCUMBRANCES AND CONTRACTS	6,426	548	137,800	38,453	183,227
CONTINUING APPROPRIATIONS	276,575	40,559			317,134
SPECIFIC PURPOSES:					
NURSING HOME GRANT SETTLEMENT	50,000				50,000
TITLE AND REGISTRATION SYSTEM	13,470				13,470
CIVIL DEFENSE DISASTER RELIEF	3,864				3,864
PROBATION SUPERVISION AND REHABILITATION	8,150				8,150
ARTS COMMISSION	4,025				4,025
COMMERCE AND INSURANCE REGULATORY BOARDS	6,014				6,014
CONSTRUCTION PROJECTS			94,658	104,351	199,009
WILDLIFE RESOURCES				32,311	32,311
CRIMINAL INJURIES				1,846	1,846
ENVIRONMENTAL PROGRAMS				35,085	35,085
JOB SKILLS				30,020	30,020
ENHANCED 911 SERVICE				35,692	35,692
PARKS ACQUISITION				12,997	12,997
COMMUNITY DEVELOPMENT				30,417	30,417
OTHER SPECIFIC PURPOSES	48,692	599	20,177	32,768	102,236
PERMANENT FUNDS:					
EXPENDABLE				13,607	13,607
NONEXPENDABLE				208,450	208,450
UNRESERVED:					
DESIGNATED FOR REVENUE FLUCTUATIONS	178,000				178,000
DESIGNATED FOR HIGHWAY CONSTRUCTION			50		50
DESIGNATED FOR OTHER SPECIFIC PURPOSES	17,788				17,788
UNDESIGNATED	153				153
TOTAL FUND BALANCES	<u>631,541</u>	<u>41,706</u>	<u>259,252</u>	<u>576,011</u>	<u>1,508,510</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,469,480</u>	<u>\$ 412,443</u>	<u>\$ 344,330</u>	<u>\$ 645,611</u>	
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:					
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND THEREFORE ARE NOT REPORTED IN THE FUNDS.					18,247,567
OTHER LONG-TERM ASSETS ARE NOT AVAILABLE TO PAY FOR CURRENT-PERIOD EXPENDITURES AND THEREFORE ARE DEFERRED IN THE FUNDS.					125,400
INTERNAL SERVICE FUNDS ARE USED BY MANAGEMENT TO CHARGE THE COSTS OF VARIOUS INTERNAL OPERATIONS TO INDIVIDUAL FUNDS. THE ASSETS AND LIABILITIES OF INTERNAL SERVICE FUNDS ARE INCLUDED IN THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS.					324,366
LONG-TERM LIABILITIES, INCLUDING BONDS PAYABLE, ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND THEREFORE ARE NOT REPORTED IN THE FUNDS.					(1,380,468)
NET ASSETS OF GOVERNMENTAL ACTIVITIES					<u>\$ 18,825,375</u>

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	GENERAL	EDUCATION	HIGHWAY	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
TAXES:					
SALES	\$ 1,479,950	\$ 3,109,343	\$ 20,026	\$ 38,449	\$ 4,647,768
FUEL	12,597		677,668	97,742	788,007
BUSINESS	1,573,589	102,319	5,175	119,025	1,800,108
OTHER	453,499			29,060	482,559
LICENSES, FINES, FEES, AND PERMITS	152,083	1,917	194,340	112,580	460,920
INTEREST ON INVESTMENTS	37,915		22	(1,319)	36,618
FEDERAL	5,603,008	529,260	537,144	25,236	6,694,648
DEPARTMENTAL SERVICES	1,512,759	14,654	40,066	39,772	1,607,251
OTHER	434,014	4,463	4,308	1,665	444,450
<b>TOTAL REVENUES</b>	<b>11,259,414</b>	<b>3,761,956</b>	<b>1,478,749</b>	<b>462,210</b>	<b>16,962,329</b>
<b>EXPENDITURES</b>					
CURRENT:					
GENERAL GOVERNMENT	339,254			19,269	358,523
EDUCATION		4,210,650		7,987	4,218,637
HEALTH AND SOCIAL SERVICES	9,250,026				9,250,026
LAW, JUSTICE AND PUBLIC SAFETY	909,480			4,827	914,307
RECREATION AND RESOURCES DEVELOPMENT	285,002			161,135	446,137
REGULATION OF BUSINESS AND PROFESSIONS	51,071			13,969	65,040
TRANSPORTATION			1,311,654		1,311,654
STATE SHARED TAXES PAID TO LOCAL GOVERNMENTS	416,369		270,146		686,515
DEBT SERVICE:					
PRINCIPAL				68,304	68,304
INTEREST				54,121	54,121
DEBT ISSUANCE COSTS				1,282	1,282
CAPITAL OUTLAY				145,590	145,590
<b>TOTAL EXPENDITURES</b>	<b>11,251,202</b>	<b>4,210,650</b>	<b>1,581,800</b>	<b>476,484</b>	<b>17,520,136</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	8,212	(448,694)	(103,051)	(14,274)	(557,807)
<b>OTHER FINANCING SOURCES (USES)</b>					
BOND AND COMMERCIAL PAPER ISSUED				168,017	168,017
COMMERCIAL PAPER REDEEMED				(152,091)	(152,091)
PREMIUM ON BOND SALES				5,149	5,149
TRANSFERS IN	163,149	467,769	80,013	55,166	766,097
TRANSFERS OUT	(541,536)	(402)	(31,223)	(214,652)	(787,813)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(378,387)</b>	<b>467,367</b>	<b>48,790</b>	<b>(138,411)</b>	<b>(641)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(370,175)</b>	<b>18,673</b>	<b>(54,261)</b>	<b>(152,685)</b>	<b>(558,448)</b>
FUND BALANCES, JULY 1	1,001,716	23,033	313,513	728,696	2,066,958
FUND BALANCES, JUNE 30	\$ 631,541	\$ 41,706	\$ 259,252	\$ 576,011	\$ 1,508,510

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (558,448)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF  
ACTIVITIES ARE DIFFERENT BECAUSE:

GOVERNMENTAL FUNDS REPORT CAPITAL OUTLAYS AS EXPENDITURES. HOWEVER,  
IN THE STATEMENT OF ACTIVITIES THE COST OF THOSE ASSETS IS ALLOCATED  
OVER THEIR ESTIMATED USEFUL LIVES AS DEPRECIATION EXPENSE. THIS IS THE  
AMOUNT BY WHICH CAPITAL OUTLAYS EXCEEDED DEPRECIATION IN THE  
CURRENT YEAR. 1,279,854

REVENUES IN THE STATEMENT OF ACTIVITIES THAT DO NOT PROVIDE CURRENT  
FINANCIAL RESOURCES ARE NOT REPORTED AS REVENUES IN THE FUNDS. 2,020

THE ISSUANCE OF LONG-TERM DEBT (E.G., BONDS, COMMERCIAL PAPER) PROVIDES  
CURRENT FINANCIAL RESOURCES TO GOVERNMENTAL FUNDS, WHILE THE REPAYMENT  
OF THE PRINCIPAL OF LONG-TERM DEBT CONSUMES THE CURRENT FINANCIAL RESOURCES  
OF GOVERNMENTAL FUNDS. NEITHER TRANSACTION, HOWEVER, HAS ANY EFFECT ON  
NET ASSETS. ALSO, GOVERNMENTAL FUNDS REPORT THE EFFECT OF ISSUANCE COSTS,  
PREMIUMS, DISCOUNTS, AND SIMILAR ITEMS WHEN DEBT IS FIRST ISSUED, WHEREAS  
THESE AMOUNTS ARE DEFERRED AND AMORTIZED IN THE STATEMENT OF ACTIVITIES.  
THIS AMOUNT IS THE NET EFFECT OF THESE DIFFERENCES IN THE TREATMENT OF LONG-  
TERM DEBT AND RELATED ITEMS. 46,361

SOME EXPENSES REPORTED IN THE STATEMENT OF ACTIVITIES DO NOT REQUIRE  
THE USE OF CURRENT FINANCIAL RESOURCES AND THEREFORE ARE NOT REPORTED  
AS EXPENDITURES IN GOVERNMENTAL FUNDS. 29,542

INTERNAL SERVICE FUNDS ARE USED BY MANAGEMENT TO CHARGE THE COST OF  
CERTAIN ACTIVITIES, SUCH AS INSURANCE AND TELECOMMUNICATIONS, TO  
INDIVIDUAL FUNDS. THE NET REVENUE (EXPENSE) OF INTERNAL SERVICE FUNDS  
IS REPORTED WITH GOVERNMENTAL ACTIVITIES. (39,772)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 759,557

The notes to the financial statements are an integral part of this statement.

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# PROPRIETARY FUND FINANCIAL STATEMENTS

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Sewer Treatment Loan – Created in 1987, this fund provides loans to local governments and utility districts for the construction of sewage treatment facilities. The initial sources of the monies are federal grants and state appropriations.

Employment Security Fund - This fund is maintained to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants. Funds are also received from the federal government for local office building construction, supplemental unemployment programs and work incentive payments. As required by law, all funds not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned from these moneys is retained in the fund. Administrative and operational expenses incurred by the Department of Labor and Workforce Development are expenditures of the General Fund.

Nonmajor Enterprise Funds – Nonmajor Enterprise Funds are presented in the supplementary section.

Internal Service Funds – Internal Service Funds are presented in the supplementary section.



STATE OF TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER TREATMENT LOAN	EMPLOYMENT SECURITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	
<b>ASSETS</b>					
CURRENT ASSETS:					
CASH AND CASH EQUIVALENTS	\$ 103,871		\$ 75,085	\$ 178,956	\$ 245,466
CASH WITH FISCAL AGENT		\$ 725,788		725,788	1,350
RECEIVABLES:					
ACCOUNTS RECEIVABLE			620	620	3,973
INTEREST	7	3,894	4	3,905	
LOANS RECEIVABLE-CURRENT	17,775	7,178	4,988	29,941	
OTHER		82,942		82,942	
DUE FROM OTHER FUNDS		290		290	266
DUE FROM COMPONENT UNITS		9	8	17	145
INVENTORY			3	3	5,162
PREPAID EXPENSES					286
TOTAL CURRENT ASSETS	121,653	820,101	80,708	1,022,462	256,648
NONCURRENT ASSETS:					
RESTRICTED CASH AND CASH EQUIVALENTS					516
DEFERRED CHARGES			81	81	493
LOANS RECEIVABLE	314,857		31,366	346,223	
LEASE RECEIVABLE					4,229
ADVANCES TO OTHER FUNDS					6,511
CAPITAL ASSETS:					
LAND, at cost					54,384
STRUCTURES AND IMPROVEMENTS, at cost					409,344
MACHINERY AND EQUIPMENT, at cost					219,411
LESS-ACCUMULATED DEPRECIATION					(287,334)
CONSTRUCTION IN PROGRESS					964
TOTAL CAPITAL ASSETS, net of accumulated depreciation					396,769
TOTAL NONCURRENT ASSETS	314,857		31,447	346,304	408,518
TOTAL ASSETS	436,510	820,101	112,155	1,368,766	665,166
<b>LIABILITIES</b>					
CURRENT LIABILITIES:					
ACCOUNTS PAYABLE AND ACCRUALS	3	20,621	41,422	62,046	69,880
DUE TO OTHER FUNDS		17,782	4	17,786	644
LEASE OBLIGATIONS PAYABLE					28
BONDS PAYABLE-CURRENT			2,845	2,845	13,007
DEFERRED REVENUE		4,298	1,134	5,432	23,232
OTHER					27,983
TOTAL CURRENT LIABILITIES	3	42,701	45,405	88,109	134,774
NONCURRENT LIABILITIES:					
LEASE OBLIGATIONS PAYABLE					61
COMMERCIAL PAPER PAYABLE					4,131
BONDS PAYABLE, net			11,079	11,079	147,174
OTHER NONCURRENT LIABILITIES			39	39	54,660
TOTAL NONCURRENT LIABILITIES			11,118	11,118	206,026
TOTAL LIABILITIES	3	42,701	56,523	99,227	340,800
<b>NET ASSETS</b>					
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT					232,368
RESTRICTED	436,507	777,400	25,329	1,239,236	224
UNRESTRICTED			30,303	30,303	91,774
TOTAL NET ASSETS	\$ 436,507	\$ 777,400	\$ 55,632	\$ 1,269,539	\$ 324,366

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER TREATMENT LOAN	EMPLOYMENT SECURITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	
<b>OPERATING REVENUES</b>					
CHARGES FOR SERVICES	\$ 12,405		\$ 2,263	\$ 14,668	\$ 362,031
INVESTMENT INCOME	2,188		820	3,008	
PREMIUMS		\$ 335,723	338,085	673,808	379,904
OTHER		18	10	28	22
<b>TOTAL OPERATING REVENUES</b>	<b>14,593</b>	<b>335,741</b>	<b>341,178</b>	<b>691,512</b>	<b>741,957</b>
<b>OPERATING EXPENSES</b>					
PERSONAL SERVICES			723	723	38,499
CONTRACTUAL SERVICES	934		32,358	33,292	215,309
MATERIALS AND SUPPLIES			89	89	51,983
RENTALS AND INSURANCE			152	152	34,502
INTEREST			785	785	
DEPRECIATION AND AMORTIZATION			10	10	28,306
BENEFITS		739,008	319,776	1,058,784	404,248
OTHER			2,640	2,640	5,531
<b>TOTAL OPERATING EXPENSES</b>	<b>934</b>	<b>739,008</b>	<b>356,533</b>	<b>1,096,475</b>	<b>778,378</b>
OPERATING INCOME(LOSS)	13,659	(403,267)	(15,355)	(404,963)	(36,421)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
TAXES					3
OPERATING GRANTS	4,995	277,000	7,761	289,756	
INTEREST INCOME		48,564	993	49,557	4,068
INTEREST EXPENSE					(12,531)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>4,995</b>	<b>325,564</b>	<b>8,754</b>	<b>339,313</b>	<b>(8,460)</b>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	18,654	(77,703)	(6,601)	(65,650)	(44,881)
CAPITAL CONTRIBUTIONS					212
TRANSFERS IN	4,788		12,031	16,819	7,367
TRANSFERS OUT					(2,470)
CHANGE IN NET ASSETS	23,442	(77,703)	5,430	(48,831)	(39,772)
NET ASSETS, JULY 1	413,065	855,103	50,202	1,318,370	364,138
NET ASSETS, JUNE 30	\$ 436,507	\$ 777,400	\$ 55,632	\$ 1,269,539	\$ 324,366

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(continued on next page)

(Expressed in Thousands)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER TREATMENT LOAN	EMPLOYMENT SECURITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
RECEIPTS FROM CUSTOMERS AND USERS		\$ 328,895	\$ 340,700	\$ 669,595	\$ 171,811
RECEIPTS FROM INTERFUND SERVICES PROVIDED			194	194	589,417
PAYMENTS TO SUPPLIERS	\$ (6)		(347,288)	(347,294)	(662,501)
PAYMENTS TO EMPLOYEES			(752)	(752)	(38,385)
PAYMENTS FOR UNEMPLOYMENT BENEFITS		(746,271)		(746,271)	
PAYMENTS FOR INTERFUND SERVICES USED	(928)		(2,910)	(3,838)	(49,956)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	(934)	(417,376)	(10,056)	(428,366)	10,386
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
OPERATING GRANTS RECEIVED	4,994	273,372	7,786	286,152	
NEGATIVE CASH BALANCE IMPLICITLY FINANCED		7,868	(71)	7,797	344
TRANSFERS IN	4,788		12,031	16,819	7,367
TRANSFERS OUT					(2,470)
PAYMENTS TO COMPONENT UNITS			(25)	(25)	
PRINCIPAL PAYMENTS			(3,280)	(3,280)	
INTEREST PAID			(848)	(848)	
TAX REVENUES RECEIVED					3
SUBSIDY TO BORROWERS			(148)	(148)	
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	9,782	281,240	15,445	306,467	5,244
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
PURCHASE OF CAPITAL ASSETS					(24,770)
BOND AND COMMERCIAL PAPER PROCEEDS					26,063
PROCEEDS FROM SALE OF CAPITAL ASSETS					1,781
BOND ISSUANCE COST					(83)
PRINCIPAL PAYMENTS					(33,296)
INTEREST PAID					(5,533)
NET CASH FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES					(35,838)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
LOANS ISSUED	(19,371)		(10,801)	(30,172)	
COLLECTION OF LOAN PRINCIPAL	26,840		4,942	31,782	
INTEREST RECEIVED	14,597	44,670	2,873	62,140	4,068
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	22,066	44,670	(2,986)	63,750	4,068
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,914	(91,466)	2,403	(58,149)	(16,140)
CASH AND CASH EQUIVALENTS, JULY 1	72,957	817,254	72,682	962,893	263,472
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 103,871	\$ 725,788	\$ 75,085	\$ 904,744	\$ 247,332

(continued from previous page)

STATE OF TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER TREATMENT LOAN	EMPLOYMENT SECURITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
OPERATING INCOME (LOSS)	\$ 13,659	\$ (403,267)	\$ (15,355)	\$ (404,963)	\$ (36,421)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
DEPRECIATION AND AMORTIZATION			10	10	28,306
PROVISION FOR UNCOLLECTIBLE ACCOUNTS			302	302	
LOSS ON DISPOSAL OF CAPITAL ASSETS					1,729
BOND ISSUANCE COST					84
INVESTMENT INCOME			(820)	(820)	
CHARGES FOR SERVICES	(12,405)		(1,044)	(13,449)	
INTEREST INCOME	(2,188)			(2,188)	
INTEREST EXPENSE			785	785	
SUBSIDY TO BORROWERS			61	61	
INTEREST CHARGED TO EMPLOYERS		3,895		3,895	
CHANGES IN ASSETS AND LIABILITIES:					
(INCREASE)DECREASE IN ACCOUNTS RECEIVABLE		(19,344)	(266)	(19,610)	(2,728)
(INCREASE)DECREASE IN DUE FROM OTHER FUNDS		(84)		(84)	(258)
(INCREASE)DECREASE IN DUE FROM COMPONENT UNITS		2	(4)	(2)	52
(INCREASE)DECREASE IN INVENTORIES			13	13	533
(INCREASE)DECREASE IN PREPAID EXPENSES					141
(INCREASE)DECREASE IN ADVANCES TO OTHER FUNDS					4,853
INCREASE(DECREASE) IN ACCOUNTS PAYABLE		2,838	5,915	8,753	10,066
INCREASE(DECREASE) IN DUE TO OTHER FUNDS			(1)	(1)	19
INCREASE(DECREASE) IN DUE TO COMPONENT UNITS					(4)
INCREASE(DECREASE) IN DEFERRED REVENUE		(1,416)	348	(1,068)	4,014
TOTAL ADJUSTMENTS	(14,593)	(14,109)	5,299	(23,403)	46,807
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (934)	\$ (417,376)	\$ (10,056)	\$ (428,366)	\$ 10,386
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
CONTRIBUTED CAPITAL ASSETS					\$ 212
CAPITAL LEASE RECEIVABLE					4,531
CAPITAL ASSET DISPOSED BY CAPITAL LEASE					(4,844)
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					\$ (101)

The notes to the financial statements are an integral part of this statement.



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# FIDUCIARY FUNDS FINANCIAL STATEMENTS

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Pension (and other Employee Benefit) Trust Funds – These are presented by fund in the supplementary section.

Investment Trust Fund – This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earnings. Through this program, the participating local governments achieve higher investment income by pooling their funds than they could realize individually.

Private-Purpose Trust Funds – These are presented by fund in the supplementary section.

Agency Funds – These are presented by fund in the supplementary section.

STATE OF TENNESSEE  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	INVESTMENT TRUST FUND	PRIVATE-PURPOSE TRUST FUNDS	AGENCY FUNDS
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	\$ 1,621,561	\$ 653,777	\$ 30,846	\$ 290,035
RECEIVABLES:				
TAXES				241,849
INTEREST AND DIVIDENDS	147,069	8,658	86	
DUE FROM SALE OF INVESTMENTS	17,336			
DUE FROM OTHER GOVERNMENTS	20,536			
OTHER	19,301		48	
DUE FROM OTHER FUNDS	3,167		10	7,500
DUE FROM COMPONENT UNITS	3,372			44
INVESTMENTS, at fair value	<u>21,332,412</u>	<u>1,110,225</u>	<u>30,658</u>	
 TOTAL ASSETS	 <u>23,164,754</u>	 <u>1,772,660</u>	 <u>61,648</u>	 <u>539,428</u>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE AND ACCRUALS	116,387		101	474,667
AMOUNTS HELD IN CUSTODY FOR OTHERS	<u></u>		<u></u>	<u>64,761</u>
 TOTAL LIABILITIES	 <u>116,387</u>		 <u>101</u>	 <u>539,428</u>
<b>NET ASSETS</b>				
HELD IN TRUST FOR:				
PENSION BENEFITS	23,048,086			
EMPLOYEES' FLEXIBLE BENEFITS	281			
POOL PARTICIPANTS		1,772,660		
INDIVIDUALS, ORGANIZATIONS AND OTHER GOVERNMENTS	<u></u>	<u></u>	<u>61,547</u>	
 TOTAL NET ASSETS	 <u>\$ 23,048,367</u>	 <u>\$ 1,772,660</u>	 <u>\$ 61,547</u>	 <u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	INVESTMENT TRUST	PRIVATE-PURPOSE TRUST FUNDS
<b>ADDITIONS</b>			
CONTRIBUTIONS:			
MEMBERS	\$ 193,676		
EMPLOYERS	243,498		
FEDERAL			\$ 17,931
POLITICAL SUBDIVISIONS	103,374		
PRIVATE			9,653
OTHERS			85
TOTAL CONTRIBUTIONS	540,548		27,669
INVESTMENT INCOME:			
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS	(1,290,032)		(2,154)
INTEREST	743,784	\$ 51,241	1,236
DIVIDENDS	153,711		
REAL ESTATE INCOME	27,152		
SECURITIES LENDING	1,726		
TOTAL INVESTMENT INCOME (LOSS)	(363,659)	51,241	(918)
LESS: INVESTMENT EXPENSES	14,094		
SECURITIES LENDING EXPENSES	1,103		
ADMINISTRATIVE FEE		1,189	
NET INVESTMENT INCOME (LOSS)	(378,856)	50,052	(918)
CAPITAL SHARE TRANSACTIONS:			
SHARES SOLD		4,404,050	
LESS SHARES REDEEMED		4,428,395	
NET CAPITAL SHARE TRANSACTIONS		(24,345)	
TOTAL ADDITIONS	161,692	25,707	26,751
<b>DEDUCTIONS</b>			
ANNUITY BENEFITS:			
RETIREMENT BENEFITS	669,388		
COST OF LIVING	145,336		
DEATH BENEFITS	3,368		
OTHER BENEFITS	4,423		7,503
REFUNDS	24,304		4,484
ADMINISTRATIVE EXPENSES	5,004		248
TOTAL DEDUCTIONS	851,823		12,235
CHANGE IN NET ASSETS HELD IN TRUST FOR:			
PENSION BENEFITS	(690,119)		
EMPLOYEES' FLEXIBLE BENEFITS	(12)		
INDIVIDUALS, ORGANIZATIONS AND OTHER GOVERNMENTS		25,707	14,516
NET ASSETS, JULY 1	23,738,498	1,746,953	47,031
NET ASSETS, JUNE 30	\$ 23,048,367	\$ 1,772,660	\$ 61,547

The notes to the financial statements are an integral part of this statement.



**State of Tennessee**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2002**

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STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
JUNE 30, 2002

NOTE 1 – **Summary of significant accounting policies**

**A. Financial reporting entity**

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government (the State) and its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government.

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.
2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide a mechanism to facilitate the provision of services for children and other citizens in need of services from state agencies:

Davidson County Community Services Agency  
Knox County Community Services Agency  
Shelby County Community Services Agency  
Hamilton County Community Services Agency  
Northeast Community Services Agency  
East Tennessee Community Services Agency  
Upper Cumberland Community Services Agency  
Southeast Community Services Agency  
Mid-Cumberland Community Services Agency  
South Central Community Services Agency  
Northwest Community Services Agency  
Southwest Community Services Agency

The Boards for these CSAs are appointed by the Governor and the budget must be approved by the State.

3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency is appointed by the Governor and its budget is approved by the State.
4. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, twelve community colleges, one technical institute and twenty-seven technology centers. The Board is comprised of state officials and appointees by the Governor and the State provides a substantial amount of funding.
5. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.
6. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

7. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.
8. The Child Care Facilities Corporation (Proprietary Fund Type) purpose is to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The Board is comprised primarily of state officials. The State must approve the budget of the Corporation.
9. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the State in conjunction with a federal government program. The Board of the Authority consists primarily of state officials; therefore, the State is able to impose its will on the organization.
10. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.

Complete financial statements for each of the individual component units may be obtained at the following addresses:

Tennessee Housing Development Agency  
1114 Parkway Towers  
404 James Robertson Parkway  
Nashville, TN 37243

Tennessee Local Development Authority  
Suite 1600, James K. Polk Building  
Nashville, TN 37243

Tennessee State Veterans' Homes Board  
345 Compton Road  
Murfreesboro, TN 37130

Tennessee State School Bond Authority  
Suite 1600, James K. Polk Building  
Nashville, TN 37243

University of Tennessee  
Office of the Treasurer  
301 Andy Holt Tower  
Knoxville, TN 37996-0100

Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, TN 37217

All others may be obtained at the following address:

Finance & Administration  
Division of Accounts  
14th Floor William R. Snodgrass Tennessee Tower  
312 Eighth Avenue North  
Nashville, TN 37243-0298

## **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from legally separate *component units* for which the primary government is financially accountable.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due.

Sales taxes, petroleum and vehicular related taxes and fees, and gross receipt taxes are considered to be available if received in the first 60 days of the new fiscal year. Federal grants, departmental services, and interest associated with the current fiscal period are all considered to be available if received in twelve months. All other revenue items are considered to be measurable and available only when cash is received by the State.

The State reports the following major governmental funds:

The *general fund* is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *education fund* accounts for the financial resources associated with programs involving the Departments of Education and Higher Education.

The *highway fund* accounts for the financial resources associated with the programs of the Department of Transportation.

The State reports the following major proprietary funds:

The *sewer treatment loan fund* accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

The *employment security fund* accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

Additionally, the State reports the following fund types:

*Internal service funds* account for services provided to other departments or agencies of the State, or to other governments, on a cost reimbursement basis.

The *fiduciary fund types* are used to account for resources legally held in trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

The effect of interfund activity, interdepartmental revenues and expenditures (both direct and indirect expenditures), has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Investment income of certain proprietary funds is classified as operating revenue because those transactions are a part of the funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then, unrestricted resources as they are needed.

**D. Assets, liabilities, and net assets or equity**

1. Deposits and investments— The State's cash and cash equivalents includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the State. These short-term investments, which are not part of the State Cash Pool, are stated at fair value. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the State's policy to include cash management pools as cash.

Investments not in the State Cash Pool are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Investment income consists of realized and unrealized appreciation or depreciation in the fair value of investments. Interest income is recognized when earned. Securities and security transactions are recorded in the financial statements on trade-date basis.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

2. Receivables and payables — All outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are shown net of an allowance for uncollectibles. Receivables in the State's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues, see Note 1C.

3. Inventories and prepaid items — Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a Special Revenue Fund) and Motor Vehicle Management, Central Stores and General Services Printing (Internal Service Funds). The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets — Proceeds of the State's general obligation commercial paper program that remain unspent at year end are classified as restricted cash on the Statement of Net Assets. The commercial paper program provides short-term financing for the State's capital projects.

Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans' Homes Board – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments.

5. Capital assets — Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure, are defined by the State as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Infrastructure assets are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

The State holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The State has elected to apply the modified approach to accounting for infrastructure—roadways and bridges. The modified approach is an alternative to depreciation that may be applied to infrastructure capital assets that meet certain requirements. Under the modified approach, depreciation expense is not recorded for these assets. Instead, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements are capitalized.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Machinery and Equipment	4-20

6. Compensated absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.
7. Long-term obligations — In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
- In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.
8. Restricted net assets — Restricted net assets consist of net assets in which constraints are placed on the use of those net assets by either external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the \$1.946 billion restricted by the primary government, \$408 million was by enabling legislation.
9. Fund equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
10. Fiscal year end — The fiscal year end of the primary government and component units is June 30, except for the following agencies reported as Special Revenue funds: Supreme Court Boards and Dairy Promotion Board. Both of these organizations have a December 31 year end. Also, the Certified Cotton Growers' Organization, a component unit, has a December 31 year end.
11. Comparative data/reclassifications — Comparative total data for the prior year have not been presented.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2002

**NOTE 2 – Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,380.468 million difference are as follows (expressed in thousands):

Bonds payable	\$ 969,659
Plus: Premium on bonds issued (to be amortized as interest expense)	5,042
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(617)
Commercial paper payable	106,569
Accrued interest payable	7,970
Capital leases payable	394
Claims and judgments	17,254
Compensated absences	162,355
Advances to other funds	6,511
Long-term accounts payable	103,159
Less: Deferred charge for lease payments receivable (to be amortized over life of lease)	(518)
Plus: Deferred charge for revenue refunds	<u>2,690</u>
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net assets—governmental activities</i>	<u>\$ 1,380,468</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$1,279.854 million difference are as follows (expressed in thousands):

Capital outlay	\$ 1,330,506
Depreciation expense	<u>(50,652)</u>
Net adjustment to increase <i>net changes in fund balances –</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u>\$ 1,279,854</u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$46.361 million difference are as follows (expressed in thousands):



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

Debt issued or incurred:	
Issuance of general obligations bonds	\$ 148,371
Issuance of commercial paper	19,646
Bond premium capitalized	5,148
Bond cost of issuance capitalized	(631)
Principal repayments:	
General obligation debt	<u>(218,895)</u>
Net adjustment to increase <i>net changes in fund balances</i> – <i>total governmental funds</i> to arrive at <i>changes in net assets of</i> <i>governmental activities</i>	<u>\$ 46,361</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$29.542 million difference are as follows (expressed in thousands):

Compensated absences	\$ (4,823)
Claims and judgments	28,896
Accrued interest	522
Advances from other funds	4,853
Amortization of issuance costs	(13)
Amortization of bond premiums	<u>107</u>
Net adjustment to increase <i>net changes in fund balances</i> – <i>total governmental funds</i> to arrive at <i>changes in net assets of</i> <i>governmental activities</i>	<u>\$ 29,542</u>

### **NOTE 3 – Stewardship, compliance and accountability**

#### **A. Budgetary process**

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except the Supreme Court Boards, Fraud and Economic Crime, Community Development and Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Unencumbered appropriations lapse at the end of each fiscal year, with the encumbered appropriations being carried forward to the next year. In order to provide sufficient funding for several programs during the year, supplemental appropriations of \$32.226 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of encumbrance and contract obligations. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis.

Encumbrance accounting is utilized for budgetary control purposes in governmental fund types. Encumbrances outstanding at year end are reported as reservations of fund balance for subsequent year expenditure.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**B. Deficit fund equity**

The Teacher Group Insurance and Local Government Group Insurance Enterprise Funds, had deficits of \$12.05 million and \$10.674 million, respectively. Also, the Employee Group Insurance, an Internal Service Fund, had a deficit of \$19.158 million. These deficits were caused by escalating insurance costs. Rate hikes are scheduled to go into place effective January 1, 2003, to address these deficits.

The Claims Award Fund, an Internal Service Fund, has a deficit of \$9.125 million. This deficit was caused by a higher level of payment on claims than expected. Additional billings to state agencies will be made during FY 2002-2003 to address this deficit.

**NOTE 4 – Accounting changes**

Changes in Accounting Principle:

The State has implemented an unprecedented number of accounting changes as a result of standards promulgated by the Governmental Accounting Standards Board (GASB) with an effective date of July 1, 2001.

GASB Statements 33, *Accounting and Financial Reporting for Nonexchange Transactions* and 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. These statements establish accounting and financial reporting for nonexchange transactions involving financial or capital resources. The principal issue addressed in the statements is *when* nonexchange transactions should be recognized in the financial statements for both accrual and modified-accrual bases of accounting. Certain provisions of these standards were implemented in fiscal year 2001; however, the provisions to fully accrue nonexchange revenues in the government-wide financial statements are effective with the implementation of GASB Statement 34.

GASB Statements 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* and 37 *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus* are a phenomenal restructuring of government financial reporting. These accounting standards provide for a new set of financial statements for the state as a whole on the accrual basis of accounting (Government-wide Statements), a new financial narrative entitled Management’s Discussion and Analysis as required supplementary information, and considerable changes to fund financial statements which continue to be required on a modified-accrual basis of accounting. In addition, this standard establishes additional note disclosure requirements.

GASB Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement 34, is effective this fiscal year for the State’s higher education institutions which are reported as discretely presented component units in the accompanying basic financial statements. This standard supercedes reporting using the AICPA College Guide Model by requiring colleges and universities to report as a business-type activity using enterprise fund accounting in accordance with provisions of GASB 34. These institutions continue to use the accrual basis of accounting.

GASB Statement 38, *Certain Financial Statement Note Disclosures*, modifies, establishes, and rescinds certain financial statement disclosure requirements. The primary change is to require additional disclosure of the details of receivables, payables, and transfers.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

The following schedule enumerates the adjustments necessary to implement the accounting changes discussed by restating the beginning balance of net assets (expressed in thousands):

	6/30/01 Equity As Previously Reported	Fund Reclassifications	Prior Period Adjustments	6/30/01 Net Assets As Restated
<b>Government-wide statements:</b>				
<b>Primary Government</b>				
Governmental activities:				
General Fund	\$ 996,080	\$ (9,829)	\$ 15,465	\$ 1,001,716
Education Fund	23,033			23,033
Highway Fund	313,513			313,513
Nonmajor governmental funds	457,892	222,536	48,268	728,696
Internal Service Funds		361,651	2,487	364,138
GASB Statements 33 and 34 changes:				
Capital Assets		1,667,976	15,299,789	16,967,765
Revenue Recognition			108,460	108,460
Long-term payables			(326,697)	(326,697)
Long-term debt			(1,114,806)	(1,114,806)
Total governmental activities	<u>1,790,518</u>	<u>2,242,334</u>	<u>14,032,966</u>	<u>18,065,818</u>
Business-type activities:				
Sewer Treatment	413,065			413,065
Employment Security		855,103		855,103
Nonmajor business-type	<u>398,391</u>	<u>(348,189)</u>		<u>50,202</u>
Total business-type activities	<u>811,456</u>	<u>506,914</u>		<u>1,318,370</u>
Fiduciary activities:				
Pension	23,738,205			23,738,205
Expendable trust	883,205	(883,205)		
Nonexpendable trust	223,579	(223,579)		
Investment trust	1,746,953			1,746,953
Employee benefit			293	293
Private Purpose trust		29,994	17,037	47,031
Total fiduciary activities	<u>26,591,942</u>	<u>(1,076,790)</u>	<u>17,330</u>	<u>25,532,482</u>
Investment in general fixed assets	<u>1,672,458</u>	<u>(1,672,458)</u>		
Total Primary Government	<u>\$ 30,866,374</u>	<u>\$ 0</u>	<u>\$ 14,050,296</u>	<u>\$ 44,916,670</u>

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	6/30/01 Equity As Previously <u>Reported</u>	Fund <u>Reclassifications</u>	Prior Period <u>Adjustments</u>	6/30/01 Net Assets <u>As Restated</u>
<b>Government-wide statements:</b>				
<b>Component Units</b>				
Tennessee Board of Regents	\$ 2,116,927		\$ (124,720)	\$ 1,992,207
GASB Statement 34 changes:				
Capital asset depreciation			(796,471)	(796,471)
Revenue recognition			7,175	7,175
Loan fund			<u>(20,421)</u>	<u>(20,421)</u>
Total Tennessee Board of Regents	<u>2,116,927</u>		<u>(934,437)</u>	<u>1,182,490</u>
University of Tennessee	2,281,159		(223,819)	2,057,340
GASB Statement 34 changes:				
Capital asset depreciation			(595,190)	(595,190)
Revenue recognition			(30,731)	(30,731)
Loan fund			<u>(33,764)</u>	<u>(33,764)</u>
Total University of Tennessee	<u>2,281,159</u>		<u>(883,504)</u>	<u>1,397,655</u>
Tennessee Housing Development Authority	<u>374,202</u>			<u>374,202</u>
Total Major Component Units	<u>4,772,288</u>		<u>(1,817,941)</u>	<u>2,954,347</u>
Nonmajor Component Units	131,490		141	131,631
GASB Statement 34 Changes:				
Elimination of fiduciary activity at the Entity-wide level			(89,109)	(89,109)
Capital asset depreciation			(714)	(714)
Long-term payables			<u>(26,921)</u>	<u>(26,921)</u>
Total Nonmajor Component Units	<u>131,490</u>		<u>(116,603)</u>	<u>14,887</u>
Total Component Units	<u>\$ 4,903,778</u>		<u>\$ (1,934,544)</u>	<u>\$ 2,969,234</u>

**Fund Reclassifications**

This column on the above schedule includes the changes in fund definition provided by GASB Statement 34 which included a complete restructuring of fiduciary funds, changes to enterprise fund criteria, and eliminating the two account groups—General Fixed Assets Account Group and General Long-Term Debt Account Group. Also, internal service funds are combined with governmental funds to be reported as governmental activities in the government-wide financial statements.

**Prior Period Adjustments**

This column on the above schedule includes changes to implement GASB Statements 33 and 34 and corrections of errors. Explanations of adjustments include:

\$15.465 million is a correction to record a number of institutional supply inventories held in various General Fund agencies, such as the Departments of Safety, Correction, Mental Health, and Children's Services.

\$48.268 million represents reclassifying items previously reported as Agency Fund liabilities to governmental funds net assets.

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\$2.487 million includes corrections of \$(479) thousand to record Tricor's depreciation on capital assets, inventory, and compensated absences; \$9.24 million increase in Office of Information Resources' receivables; and \$(6.274) million to decrease Facilities Revolving Fund's capital assets.

\$15.3 billion represents capital assets previously not reported in the financial statements, infrastructure (roadways and bridges), land (right-of-way acreage), and accumulated depreciation on structures and improvements, and machinery and equipment.

\$108.46 million results from applying accrual accounting to the State's tax and other revenues previously not accrued beyond 60 days.

\$326.697 million represents long-term obligations of the State which were previously not required to be reported outside of the General Long-Term Debt Account Group. Obligations in this category include compensated absences, capital leases, and claims and judgments.

\$1.115 billion represents long-term debt obligations of the State that were previously not required to be reported outside of the General Long-Term Debt Account Group. This debt includes general obligation commercial paper outstanding and net general obligation bonds payable. Bonds are reported net of original issue discount or premium and the deferred amount resulting from refunded bonds.

\$293 thousand is a change to the Employee Benefit Trust to reclassify a liability to net assets.

\$17.037 million represents reclassifying Agency Fund liabilities to private-purpose trust net assets.

**Prior Period Adjustments – Component Units**

This column on the above schedule includes changes to implement GASB Statement 34 and 35 and corrections of errors. Explanations of adjustments include:

\$934.437 million for the Tennessee Board of Regents includes \$124.72 million for adjustments resulting primarily from revisions to capitalization policies for buildings and additions, library holdings and correction of errors for capital assets that were expensed. \$809.717 million includes capital assets depreciation, revenue recognition, and accounting changes for the loan fund.

\$883.504 million for the University of Tennessee represents \$223.819 million for adjustments resulting primarily from revisions to capitalization policies for capital assets and library holdings. \$659.685 million includes capital assets depreciation, revenue recognition, and accounting changes for the loan fund.

\$116.603 million for the Nonmajor Component Units represents changes for capital assets depreciation, long-term payables, and elimination of fiduciary activity.

**NOTE 5 – Detailed notes on all funds**

**A. Deposits and investments**

1. Pooled investments – The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories; prime commercial paper and prime banker's acceptances; bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States; and in certain obligations of the State. This resolution further states that the dollar weighted average maturity of the State Pooled Investment Fund shall not exceed 90 days and that no investment may be purchased with a remaining maturity of greater than 397 calendar days.

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The State Pooled Investment Fund is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the fund loan specific securities from its holdings to the broker in return for collateral securities. Statute requires that the loaned securities be collateralized at 102% of their market value. There were no securities on loan from the State Pooled Investment Fund during fiscal year 2002.

Statutes require the state deposits be secured by collateral securities with a market value of 105% of the face of the deposit secured thereby after considering the applicable FDIC coverage, or the depository must be a member of the State Collateral Pool and the pool must have securities pledged which in total equal the required percentage established by the Collateral Pool Board.

Certificates of deposit are not placed or renewed with a financial institution until adequate collateral is pledged. Open accounts maintained for deposit of state revenues are collateralized on an estimate of the average daily balance in the account based on previous balances and monitored for variation to actual balances. The Treasurer is required, by statute, to evaluate the market value of required collateral monthly, and more frequently if market conditions require. Further, statutes provide the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All repurchases are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The policy guidelines approved by the State Funding Board require that the market value of the securities underlying the repurchase agreement be at least 102% of the cash investment. The policy also requires that collateral securities be marked-to-market daily and be maintained at a value equal to or greater than the cash investment. Prime commercial paper may be acquired from authorized broker dealers or directly from the issuer. There is no collateral requirement for prime commercial paper.

The Tennessee Consolidated Retirement System (TCRS), in addition to the guidelines outlined for the Pooled Investment Fund, may invest in long-term investments. The TCRS may invest in bonds, debentures, preferred stock and common stock, and other good and solvent securities subject to the TCRS Board of Trustees approval. The Board has also authorized limited investments of securities in some foreign countries. TCRS may also invest in multifamily residential real estate through direct equity investment vehicles including, but not limited to, sole proprietorship and joint ventures.

2. Valuation of investments

a. State Pooled Investment Fund – The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the State Funding Board, operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2002, the State had not obtained or provided any legally binding guarantees to support the value of participant shares.

b. Other Investments – Investments not included in the SPIF are valued at fair value.

3. Securities lending — The TCRS and the Chairs of Excellence (COE), a permanent fund, are authorized by their investment policies, as adopted by their boards, to enter into collateralized securities lending agreements whereby the TCRS and COE loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the TCRS' and COE's assets. The TCRS' and COE's custodian bank manages the lending program and maintains the collateral on behalf of the TCRS and COE. The borrower must deliver collateral to the lending agent in the form of cash or bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies or by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and other United States government sponsored corporations or enterprises. Cash received as collateral may be reinvested by the

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lending agency in accordance with the investment policy, as further restricted under the TCRS and COE securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

The loaned securities are initially collateralized at 102 percent of their fair value for domestic securities and 105 percent for international. Collateral is marked-to-market daily and additional collateral is pledged by the borrower if the fair value of the collateral subsequently falls below 100 percent for domestic securities and 105 percent for international. Although there is no specific policy for matching the maturities of the collateral investments and the securities loans, all securities on loan can be terminated on demand by either the TCRS/COE or the borrower. At year-end, TCRS and COE had no securities on loan.

4. Financial instruments with off-balance sheet risk – The TCRS is party to financial instruments with off-balance sheet risk used in the normal course of business to generate earnings and reduce its own exposure to fluctuations in market conditions. The TCRS is authorized by statute to engage in forward contracts to exchange different currencies at a specified future date and rate and in domestic stock index futures contracts. These contracts involve elements of custodial credit, market and legal risk in excess of amounts recognized in the statement of fiduciary net assets. The TCRS may purchase or sell domestic stock index futures contracts for the purposes of making asset allocation changes and improving liquidity. The contractual or notional amounts express the extent of the TCRS' involvement in these instruments and do not represent exposure to credit loss. The credit risk on forward and futures contracts is controlled through limits and monitoring procedures. Market risk, the risk that changing market conditions may make a financial instrument less valuable, is controlled through limitations on the use of such instruments. Legal risk is controlled through the use of only authorized instruments and brokers. The allowable currencies for hedging purposes are limited by policy on the Board of Trustees to the currencies of those countries otherwise authorized for investment.

At June 30, 2002, there were forward exchange contracts outstanding at a total net notional amount of \$896,129,128 and a fair value of \$961,336,292.

At June 30, 2002, the notional amount of TCRS futures contract was \$128,868,750 at a fair value of \$123,762,500.

The TCRS invests in collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The CMOs held were issued by quasi-U.S. governmental agencies. At June 30, 2002, TCRS held no CMOs. The TCRS also invests in various asset-backed securities, representing ownership interests in trusts consisting of credit card or auto loan receivables. These securities are issued by organizations with AAA or AA credit ratings. TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets.

5. Deposits — Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the state's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. Category 3 deposits are uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the state's name.

At year end, the carrying amount of deposits in all funds was \$1,528.569 million and the bank balance, including accrued interest, was \$1,763.668 million. Of the bank balance, \$1,761.605 million was (category 1) covered by insurance or collateral (valued at market) held in the state's name by independent custodial banks or segregated in the Federal Reserve Bank in the state's account and \$2.063 million was (category 3) uninsured and uncollateralized.

The carrying value of cash and investments includes \$471.176 million of funds reported as component units.

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Cash on deposit with fiscal agent includes \$11.068 million of cash held in a custody account by State Street Bank under a contractual arrangement for master custody services. Monies with the custodial agent are not classified by credit risk, as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

6. Investments - Investments are also required to be categorized to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the state or its agent in the State's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent but not in the State's name. Investments are categorized below for all funds (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash Equivalents and Short-Term Investments:					<u>6/30/02</u>
Commercial Paper	\$ 1,433,296			\$ 1,433,296	\$ 1,433,203
Repurchase Agreements	98,000			98,000	98,000
Government Securities	2,588,495			2,588,495	2,590,171
Corporate Securities	<u>90,489</u>			<u>90,489</u>	<u>90,489</u>
Total Cash Equivalents and Short-Term Investments	<u>4,210,280</u>			<u>4,210,280</u>	<u>4,211,863</u>
Long-Term Investments:					
Government Securities - not on loan	8,678,225			8,678,225	8,678,225
Corporate Bonds	2,820,660			2,820,660	2,820,660
Corporate Stocks	9,167,281			9,167,281	9,167,281
Margin deposit on futures contract					
Government bonds			\$ 9,438	<u>9,438</u>	<u>9,438</u>
Total Long-Term Investments	<u>20,666,166</u>		<u>9,438</u>	<u>20,675,604</u>	<u>20,675,604</u>
Total	<u>\$ 24,876,446</u>		<u>\$ 9,438</u>	24,885,884	24,887,467

Investments not subject to categorization:

Unsettled Investment Acquisitions:		
Government Bonds	101,906	101,906
Corporate Stocks	12,230	12,230
Mutual Funds	102,859	102,859
Real Estate	352,582	352,582
Unemployment Compensation Pool	<u>725,788</u>	<u>725,788</u>
Total Investments and Cash Equivalents	<u>\$ 26,181,249</u>	<u>\$ 26,182,832</u>



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7. The various component units are generally governed by the same basic State statutes as the State's investments described above.

a. University of Tennessee

At year end, the carrying amount of deposits for the University of Tennessee was \$20.425 million and the bank balance was \$19.839 million. Of this balance, the entire amount was (category 1) insured or collateralized with securities held by the University or by its agent in the University's name. During the year ended June 30, 2002, the University had uncollateralized deposits on several days of amounts up to \$4.908 million.

The investments for the University of Tennessee are categorized below (expressed in thousands):

	<u>Category</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
					<u>6/30/02</u>
Cash Equivalents:					
Commercial Paper	\$ 90,790			\$ 90,790	\$ 90,790
Repurchase Agreements	16,000	\$ 2,000		18,000	18,000
Government Securities	<u>235,851</u>			<u>235,851</u>	<u>235,851</u>
Total Cash Equivalents	<u>342,641</u>	<u>2,000</u>		<u>344,641</u>	<u>344,641</u>
Investments:					
Government Securities	8,167	37,813		45,980	45,980
Corporate Bonds	4,125	32,269		36,394	36,394
Corporate Stocks	119,975	5,651		125,626	125,626
Assets with Trustees			\$ 4,621	4,621	4,621
Collateralized Mortgage Securities	1,200			1,200	1,200
Other	<u>169</u>			<u>169</u>	<u>169</u>
Total Investments	<u>133,636</u>	<u>75,733</u>	<u>4,621</u>	<u>213,990</u>	<u>213,990</u>
Total	<u>\$ 476,277</u>	<u>\$ 77,733</u>	<u>\$ 4,621</u>	558,631	558,631
Investments not subject to categorization:					
Limited Partnership-Venture					
Capital Funds				29,543	29,543
Real Estate Equity				21,794	21,794
Mutual Funds				143,318	143,318
Real Estate Gifts				5,110	5,110
Cash Equivalents - assets with bank as custodian				4,591	4,591
Investments in Hedge Funds				<u>35,026</u>	<u>35,026</u>
Total Investments and Cash Equivalents				<u>\$ 798,013</u>	<u>\$ 798,013</u>

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**b. Tennessee Board of Regents**

At year end, the carrying amount of deposits for the Tennessee Board of Regents was \$60.770 million and the bank balance was \$74.216 million. Of the bank balance, \$73.747 million was (category 1) covered by insurance or collateral (valued at market) held in the schools' name by independent custodial banks or segregated in the Federal Reserve Bank in the schools' name, and \$469 thousand was (category 3) uninsured and uncollateralized. In addition, at June 30, 2002, the schools had \$294.306 million being held by the State in the Local Government Investment Pool.

The investments for the Tennessee Board of Regents are categorized below (expressed in thousands):

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Investments:					
Commercial Paper	\$ 3,987			\$ 3,987	\$ 3,987
Government Securities	11,226	\$ 2,027	\$ 32,698	45,951	45,951
Corporate Bonds	1,050	2,443	2,012	5,505	5,505
Corporate Stocks	11,615	9,654	2,557	23,826	23,826
Other	<u>505</u>		<u>3,054</u>	<u>3,559</u>	<u>3,559</u>
Total Long-Term Investments	<u>\$ 28,383</u>	<u>\$ 14,124</u>	<u>\$ 40,321</u>	82,828	82,828

Investments not subject to categorization:

Mutual Funds	<u>22,424</u>	<u>22,424</u>
Total Investments and Cash Equivalents	<u>\$ 105,252</u>	<u>\$ 105,252</u>

**c. Tennessee State School Bond Authority**

At year end, the carrying amount and bank balance of deposits was \$37 thousand for the Tennessee State School Bond Authority (TSSBA). All bank balances were insured, except during the week of April 25 through April 30, 2002, of which certain funds held by the bond trustee were not insured or collateralized. The amounts not collateralized ranged from \$1,975,734 to \$17,573,978 during this period. In addition, at June 30, 2002, TSSBA had \$56.973 million being held by the State in the State Pooled Investment Fund.

The investments for the Tennessee School Bond Authority are categorized below (expressed in thousands):

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Investments:					
Government Securities	<u>\$ 13,699</u>			<u>\$ 13,699</u>	<u>\$ 13,699</u>
Total Investments	<u>\$ 13,699</u>			<u>\$ 13,699</u>	<u>\$ 13,699</u>

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d. Tennessee Housing Development Agency

Tennessee Housing Development Agency's (THDA) deposits were in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk disclosure.

At June 30, 2002, the carrying amount of THDA's deposits was \$45.129 million, and the bank balance was \$45.516 million. Of the bank balance, \$36.865 million was insured and \$8.651 million was uninsured and uncollateralized. In addition, at June 30, 2002, THDA had \$10.678 million being held by the State in the State Pooled Investment Fund.

The investments for the Tennessee Housing Development Agency are categorized below (expressed in thousands):

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash Equivalents and Short-Term Investments:					<u>6/30/02</u>
Repurchase Agreements	\$ 147,101		\$ 21,899	\$ 169,000	\$ 169,000
Government Securities	<u>69,084</u>			<u>69,084</u>	<u>69,084</u>
Total Cash Equivalents and Short-Term Investments	<u>216,185</u>		<u>21,899</u>	<u>238,084</u>	<u>238,084</u>
Long-Term Investments					
Government Securities	<u>485,538</u>			<u>485,538</u>	<u>485,538</u>
Total	<u>\$ 701,723</u>		<u>\$ 21,899</u>	723,622	723,622
Investments not subject to categorization:					
Unsettled Investment Acquisition					
Government Securities				<u>1,982</u>	<u>1,982</u>
Total Investments and Cash Equivalents				<u>\$ 725,604</u>	<u>\$ 725,604</u>

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**B. Accounts and notes receivable**

Receivables at June 30, 2002, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

<b>Primary Government</b>							
	<u>Accounts</u>	<u>Taxes</u>	<u>Government</u>	<u>Other</u>	<u>Total Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net Total Receivables</u>
Governmental Activities:							
General	\$ 280,724	\$ 469,870	\$ 281,371	\$ 10,831	\$ 1,042,796	\$ (88,538)	\$ 954,258
Education	16	376,001	64,165		440,182	(31,254)	408,928
Highway	230	138,916			139,146	(33)	139,113
Nonmajor governmental	286	9,695	4,734	1,475	16,190	(373)	15,817
Internal Service	<u>3,973</u>				<u>3,973</u>		<u>3,973</u>
Total—governmental activities	<u>\$ 285,229</u>	<u>\$ 994,482</u>	<u>\$ 350,270</u>	<u>\$ 12,306</u>	<u>\$ 1,642,287</u>	<u>\$ (120,198)</u>	<u>\$ 1,522,089</u>
Amounts not expected to be collected within one year							
		<u>\$ 32,096</u>					<u>\$ 32,096</u>
Business-type Activities:							
Employment Security	\$ 23,323	\$ 79,820		\$ 3,895	\$ 107,038	\$ (20,202)	\$ 86,836
Sewer Treatment Loan				7	7		7
Nonmajor proprietary	<u>620</u>			<u>4</u>	<u>624</u>		<u>624</u>
Total—business-type activities	<u>\$ 23,943</u>	<u>\$ 79,820</u>		<u>\$ 3,906</u>	<u>\$ 107,669</u>	<u>\$ (20,202)</u>	<u>\$ 87,467</u>

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**C. Capital assets**

Capital asset activity for the year ended June 30, 2002, was as follows (expressed in thousands):

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 546,273	\$ 158,150	(\$ 1,401)	\$ 703,022
Infrastructure	13,816,664	782,701	(43,662)	14,555,703
Construction in progress	<u>1,793,174</u>	<u>1,195,999</u>	<u>(831,209)</u>	<u>2,157,964</u>
Total capital assets, not being depreciated	<u>16,156,111</u>	<u>2,136,850</u>	<u>(876,272)</u>	<u>17,416,689</u>
Capital assets, being depreciated:				
Structures and improvements	1,578,833	60,180	(1,758)	1,637,255
Machinery and equipment	<u>465,102</u>	<u>46,809</u>	<u>(33,903)</u>	<u>478,008</u>
Total capital assets being depreciated	2,043,935	106,989	(35,661)	2,115,263
Less accumulated depreciation for:				
Structures and improvements	(537,018)	(38,475)	778	(574,715)
Machinery and equipment	<u>(291,534)</u>	<u>(48,577)</u>	<u>27,210</u>	<u>(312,901)</u>
Total accumulated depreciation	<u>(828,552)</u>	<u>(87,052)</u>	<u>27,988</u>	<u>(887,616)</u>
Total capital assets, being depreciated, net	<u>1,215,383</u>	<u>19,937</u>	<u>(7,673)</u>	<u>1,227,647</u>
Governmental activities capital assets, net	<u>\$ 17,371,494</u>	<u>\$ 2,156,787</u>	<u>(\$ 883,945)</u>	<u>\$ 18,644,336</u>

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

<b>Governmental activities:</b>	
General Government	\$ 1,385
Education	1,707
Health and Social Services	6,319
Law, Justice and Public Safety	17,738
Recreation and Resource Development	9,904
Regulation of Business and Professions	14
Transportation	13,596
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>28,297</u>
Total depreciation expense – governmental activities	<u>\$ 78,960</u>

Highway Construction Commitments — At June 30, 2002, the Department of Transportation had contractual commitments of approximately \$552.3 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants (\$458.3 million) and general obligation bond proceeds (\$94.0 million).

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**Discretely Presented Component Units**

Capital asset activity for the year ended June 30, 2002, for the discretely presented component units are as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 104,225	\$ 20,037	\$ (702)	\$ 123,560
Construction in progress	<u>215,834</u>	<u>130,986</u>	<u>(148,730)</u>	<u>198,090</u>
Total capital assets, not being depreciated	320,059	151,023	(149,432)	321,650
Capital assets, being depreciated:				
Infrastructure	187,786	8,007	(18,975)	176,818
Structures and improvements	2,075,953	191,026	(9,174)	2,257,805
Machinery and equipment	<u>673,007</u>	<u>72,836</u>	<u>(100,548)</u>	<u>645,295</u>
Total capital assets being depreciated	2,936,746	271,869	(128,697)	3,079,918
Less accumulated depreciation for:				
Infrastructure	(50,551)	(36,577)	41	(87,087)
Structures and improvements	(783,147)	(154,079)	4,075	(933,151)
Machinery and equipment	<u>(323,020)</u>	<u>(88,604)</u>	<u>27,279</u>	<u>(384,345)</u>
Total accumulated depreciation	<u>(1,156,718)</u>	<u>(279,260)</u>	<u>31,395</u>	<u>(1,404,583)</u>
Total capital assets, being depreciated, net	<u>1,780,028</u>	<u>(7,391)</u>	<u>(97,302)</u>	<u>1,675,335</u>
Total capital assets, net	<u>\$ 2,100,087</u>	<u>\$ 143,632</u>	<u>\$ (246,734)</u>	<u>\$ 1,996,985</u>

**D. Interfund balances**

1. Interfund balances at June 30, 2002, consisted of the following (expressed in thousands):

		<b>D U E      F R O M</b>						
	<u>General Fund</u>	<u>Education</u>	<u>Highway</u>	<u>Employment Security</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
General Fund		\$ 211,526	\$ 1	\$ 17,782	\$ 18		\$ 364	\$ 229,691
<b>D</b> Education	\$ 3,156							3,156
<b>U</b> Highway	8							8
<b>E</b> Employment								
Security	283					7		290
Nonmajor								
<b>T</b> Governmental	1							1
<b>O</b> Internal Service								
Funds	125	10	128				3	266
Fiduciary Funds	<u>8,710</u>	<u>278</u>	<u>1,126</u>		<u>282</u>	<u>\$ 4</u>	<u>277</u>	<u>10,677</u>
Total	<u>\$ 12,283</u>	<u>\$ 211,814</u>	<u>\$ 1,255</u>	<u>\$ 17,782</u>	<u>\$ 307</u>	<u>\$ 4</u>	<u>\$ 644</u>	<u>\$ 244,089</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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Of the \$211,526 due to the General Fund from the Education Fund, \$211,316 resulted from a time lag between the dates that payments to local education agencies occur and taxes are received in the Education Fund. The \$17,782 due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities.

**2. COMPONENT UNITS PAYABLES**

Component Units accounts payable to the Primary Government at June 30, 2002, consisted of the following (expressed in thousands):

		<b>PAYABLE FROM COMPONENT UNITS</b>				
		Tennessee Housing Development <u>Agency</u>	Tennessee Board of <u>Regents</u>	University of <u>Tennessee</u>	Nonmajor Component <u>Units</u>	<u>Total</u>
<b>P</b>	<b>PRIMARY GOVERNMENT:</b>					
<b>A</b>	General Fund	\$ 35,367	\$ 62	\$ 92	\$ 3,971	\$ 39,492
<b>Y</b>	Education Fund		251	98		349
<b>A</b>	Employment Security				9	9
<b>B</b>	Nonmajor Governmental Funds		70	1,166		1,236
<b>L</b>	Nonmajor Enterprise Funds		7	1		8
<b>E</b>	Internal Service Funds		80	37	28	145
	Fiduciary Funds	<u>53</u>	<u>1,710</u>	<u>1,533</u>	<u>120</u>	<u>3,416</u>
<b>T</b>						
<b>O</b>	Total	<u>\$ 35,420</u>	<u>\$ 2,180</u>	<u>\$ 2,927</u>	<u>\$ 4,128</u>	<u>\$ 44,655</u>

**3. COMPONENT UNITS RECEIVABLES**

Component Units accounts receivable from the Primary Government at June 30, 2002, consisted of the following (expressed in thousands):

		<b>RECEIVABLE FROM PRIMARY GOVERNMENT</b>		
		<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>R</b>				
<b>E</b>				
<b>C</b>	<b>COMPONENT UNITS:</b>			
<b>E</b>				
<b>I</b>	Tennessee Board of Regents		\$ 1,118	\$ 1,118
<b>V</b>	University of Tennessee		12,365	12,365
<b>A</b>	Nonmajor Component Units	<u>\$ 8,682</u>		<u>8,682</u>
<b>B</b>				
<b>L</b>	Total	<u>\$ 8,682</u>	<u>\$13,483</u>	<u>\$ 22,165</u>
<b>E</b>				
<b>T</b>				
<b>O</b>				

The Certified Cotton Growers' has a year end of December 31. At that date, the State owed \$2.25 million, of which \$1.75 million was paid by June 30. Therefore, the amount reported above, and the amount on the Statement of Net Assets, disagree by \$1.75 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**E. Advances**

The Office for Information Resources, an internal service fund, has advances of \$6.511 million to various general fund agencies for computer systems development. These loans are considered long term and are not expected to be repaid within one year.

**F. Transfers**

Transfers between the various primary government funds for fiscal year 2001-2002 are as follows (expressed in thousands):

		<b>Transfers In</b>							
				Nonmajor Governmental	Sewer	Nonmajor	Internal		
<u><b>Transfers Out</b></u>	<u>General</u>	<u>Education</u>	<u>Highway</u>	<u>Funds</u>	<u>Treatment</u>	<u>Funds</u>	<u>Funds</u>	<u>Total</u>	
General		\$ 467,769	\$ 13	\$ 49,661	\$ 4,788	\$ 12,031	\$ 7,274	\$ 541,536	
Education				402				402	
Highway	\$ 31,223							31,223	
Nonmajor									
Governmental Funds	129,476		80,000	5,083			93	214,652	
Internal Service Funds	<u>2,450</u>			<u>20</u>				<u>2,470</u>	
Totals	<u>\$ 163,149</u>	<u>\$ 467,769</u>	<u>\$ 80,013</u>	<u>\$ 55,166</u>	<u>\$ 4,788</u>	<u>\$ 12,031</u>	<u>\$ 7,367</u>	<u>\$ 790,283</u>	

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ending June 30, 2002, the general fund transferred \$541.5 million to other funds in accordance with statute or budgetary authorizations for the following purposes: \$456.2 million to subsidize the activities of the education fund, \$39.8 million for capital outlay expenditures, \$40.9 million to provide appropriations to finance various programs in other funds and \$4.6 million to provide for debt service payments that were due.

The highway fund received a transfer from the debt service fund for \$80.0 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

Of the \$163.1 million transferred into the general fund, the following transfers were considered nonroutine and inconsistent with the activities of the funds making the transfers: the highway fund transferred \$30.0 million and special revenue funds transferred \$88.8 million to the general fund for the purpose of funding the requirements of state government operations. These transfers were made in accordance with budgetary authority granted by the Legislature.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**G. Lease obligations**

Operating Lease Obligations — The State has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The State has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Noncancelable</u> <u>Operating Leases</u>
2003	\$ 13,595
2004	11,844
2005	8,947
2006	6,663
2007	4,254
2008-2012	10,288
2013	<u>2</u>
Total Minimum Payments Required	<u>\$ 55,593</u>

Expenditures for rent under leases for the years ended June 30, 2002 and 2001, amounted to \$31.9 million and \$32.6 million, respectively.

Capital Lease Obligations — The State leases a building for a vocational training center. The lease provides an option to purchase the building within the twelve-year lease period. This capital lease obligation is payable from resources of the General Fund. The effective interest rate is 5.1%. In addition, Records Management (an internal service fund) leased an imaging system with an option to purchase within the five-year lease period. The effective interest rate is 2.65%. These capital lease obligations are reported in the governmental activities column of the Statement of Net Assets. The following is an analysis of the leased property under capital leases (expressed in thousands).

		<u>Governmental Activities</u>
Assets:		
Land		\$ 56,000
Building	605,000	
Less: Accumulated		
Depreciation	<u>61</u>	604,939
Equipment	140	
Less: Accumulated		
Depreciation	<u>26</u>	<u>114</u>
		<u>\$ 661,053</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

At June 30, 2002, minimum annual lease payments are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Governmental Activities Lease</u> <u>Obligation Payable</u>
2003	\$ 104
2004	104
2005	104
2006	76
2007	74
2008-2009	<u>92</u>
Total	554
<u>Less</u> - Interest	<u>71</u>
Present value of net minimum lease payments	<u>\$483</u>

#### **H. Lease receivables**

Operating Lease Receivables — The State, as the lessor, entered into an operating lease with Tennessee Golf, LLC for four golf courses built by the State to be operated by the lessee. The 21-year lease agreement, dated January 20, 1995, that required lease payments begin in January 2001 was amended on February 11, 2002, to extend the lease period to 30 years. In accordance with GASB Statement 13, this lease qualifies as lease with scheduled rent increases. The golf courses are recorded as a governmental activities capital asset.

The following is a schedule by years of minimum future rentals on noncancelable leases as of June 30, 2002 (expressed in thousands):

<u>Year ending June 30</u>	
2003	\$ 240
2004	261
2005	283
2006	1,272
2007	2,250
2008-2012	11,250
2013-2017	12,508
2018-2022	12,647
2023-2027	12,647
2028-2031	<u>8,853</u>
Total minimum future rentals	<u>\$ 62,211</u>

Capital Lease Receivable — The State, as the lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Farmers' Market Facility. The lease term is 20 years with an option to renew the lease for an unlimited period of time. The agreement was signed in June 1995; an initial cash payment was made and the first of 19 payments began in fiscal year 1997. The State is subsidizing a part of the cost of this building.

The State, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The State is subsidizing a part of the cost of this building.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

Minimum future lease payments to be received as of June 30, 2002 (expressed in thousands):

<u>Year Ended June 30</u>	<u>Total</u>
2003	\$ 560
2004	559
2005	562
2006	560
2007	461
2008-2012	2,291
2013-2017	1,783
2018-2021	<u>805</u>
Total minimum future lease payments	<u>\$ 7,581</u>

Net investment in direct financing leases at June 30:

Minimum lease payments receivable	\$ 7,581
Plus: deferred charges	<u>816</u>
Net investment in direct financing lease	<u>\$ 8,397</u>

**I. Long term debt**

1. General Obligation Bonds – Bonds Payable at June 30, 2002, are shown below (expressed in thousands):

	<u>Amount</u>
<u>Business-type Activities:</u>	
General obligation bonds, 5.0%, due in generally decreasing amounts of principal and interest ranging from \$1.71 million in 2003 to \$685 thousand in 2006	\$ 5,810
General obligation refunding bonds, 1996 Series C, 4.6% to 5.0%, principal and interest due in amounts ranging from \$1.135 million in 2003 to \$940 thousand in 2010	<u>8,267</u>
	14,077
Less: Unamortized bond refunding costs	<u>(153)</u>
Total Business-type Activities	<u>13,924</u>
<u>Governmental Activities:</u>	
General obligation bonds, 4.0% to 7.4%, due in generally decreasing amounts of principal and interest from \$63.33 million in 2003 to \$3.72 million in 2029	813,240
General obligation refunding bonds, 1996 Series B, 4.6% to 6%, principal and interest due in amounts ranging from \$17.22 million in 2003 to \$3.73 million in 2011	95,070
General obligation refunding bonds, 1999 Series A, 3.5% to 5%, principal and interest due in amounts ranging from \$6.61 million in 2003 to \$5.145 million in 2015	<u>229,337</u>
Total General Long-Term Debt	<u>1,137,647</u>
Less: Unamortized bond refunding costs	<u>(2,766)</u>
Total Governmental Activities	<u>\$ 1,134,881</u>

General Obligation bonds issued during the year ended June 30, 2002:

January 2002 – Series 2002A in the amount of \$150.6 million  
Series 2002B in the amount of \$13.48 million

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

The \$150.6 million general obligation bond issue represents tax exempt bonds maturing serially through 2022 at interest rates ranging from 3.0% to 5.25%. The bonds were sold at a premium of \$5,599,760. The \$13.48 million general obligation bond issue represents taxable bonds maturing serially through 2014 and term maturities in 2017 and 2022 at interest rates ranging from 6.0% to 6.5%. The bonds were sold at a premium of \$132,840. Proceeds of \$164.1 million were used to redeem commercial paper.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2002, is shown below (expressed in thousands).

	<u>Commercial Paper</u>
General obligation commercial paper, interest rates ranging from 1.4% to 2.65% for tax exempt and 1.75% to 3.74% for taxable, varying maturities	\$ 110,700

The full faith and credit of the State, together with certain tax revenues, are pledged to secure all general obligation bonds and commercial paper listed above.

In March 2000, the State instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of \$100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed \$250 million.

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2005. At June 30, 2002, \$110.7 million of commercial paper was outstanding (\$93.4 million tax exempt and \$17.3 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2002, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>General Obligation Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2003	\$ 90,454	\$ 57,626	\$ 148,080
2004	90,274	53,428	143,702
2005	89,909	48,754	138,663
2006	88,564	43,963	132,527
2007	77,719	39,414	117,133
2008-2012	344,587	143,819	488,406
2013-2017	256,131	65,111	321,242
2018-2022	92,466	17,784	110,250
2023-2027	14,435	5,542	19,977
2028-2029	7,185	807	7,992
	<u>\$1,151,724</u>	<u>\$476,248</u>	<u>\$ 1,627,972</u>

The above principal for bonds does not reflect a \$2.919 million deduction from bonds payable for the deferred amount on refunding.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2002, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

<u>Purpose</u>	<u>Unissued July 1, 2001</u>	<u>Authorized</u>	<u>Canceled</u>	<u>Unissued June 30, 2002</u>
Highway	\$ 641,500	\$ 80,000	\$ 80,000	\$ 641,500
Higher Education	23,152		3,457	19,695
Environment and Conservation	36,270	2,000	20,211	18,059
General Government	464,299	80,600	156,603	388,296
Local Development Authority	24,800		1,500	23,300
Other	<u>480</u>	<u>          </u>	<u>          </u>	<u>480</u>
Totals	<u>\$ 1,190,501</u>	<u>\$ 162,600</u>	<u>\$ 261,771</u>	<u>\$ 1,091,330</u>

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2002, follows (expressed in thousands).

**Changes In Long-Term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Commercial Paper Payable:					
General Obligation Debt	\$ 1,302,452	\$ 199,812	\$ (253,917)	\$ 1,248,347	\$ 87,160
Less Deferred Amount on Refundings	<u>(2,996)</u>	<u>          </u>	<u>230</u>	<u>(2,766)</u>	<u>          </u>
Total Bonds and Commercial Paper Payable	1,299,456	199,812	(253,687)	1,245,581	87,160
Capital Leases	562		(79)	483	83
Compensated Absences	160,837	98,270	(93,352)	165,755	81,220
Bond interest accrual		7,970		7,970	7,970
Claims and Judgments	<u>171,928</u>	<u>58,290</u>	<u>(28,896)</u>	<u>201,322</u>	<u>27,983</u>
Governmental Activities Long-Term Liabilities	<u>\$ 1,632,783</u>	<u>\$ 364,342</u>	<u>\$ (376,014)</u>	<u>\$ 1,621,111</u>	<u>\$ 204,416</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable	\$ 17,386		\$ (3,309)	\$ 14,077	\$ 2,845
Less Deferred Amount on Refundings	<u>(173)</u>	<u>          </u>	<u>20</u>	<u>(153)</u>	<u>          </u>
Total Bonds Payable	17,213		(3,289)	13,924	2,845
Compensated Absences	<u>88</u>	<u>\$ 48</u>	<u>(60)</u>	<u>76</u>	<u>37</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 17,301</u>	<u>\$ 48</u>	<u>\$ (3,349)</u>	<u>\$ 14,000</u>	<u>\$ 2,882</u>

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the General Fund and Special Revenue Funds liquidate compensated absences liabilities. Claims and judgments are obligations of Underground Storage Tanks and Highway, Special Revenue Funds and the General Fund.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**J. Payables**

Payables as of June 30, 2002, were as follows (expressed in thousands):

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General	\$ 444,764	\$ 52,788		\$ 54,919	\$ 552,471
Education	92,044	2,591		9,400	104,035
Highway	65,868	6,585			72,453
Other governmental	37,185	685	\$ 3,239	193	41,302
Internal Service	<u>66,864</u>	<u>1,627</u>	<u>      </u>	<u>      </u>	<u>68,491</u>
Total— governmental activities	<u>\$ 706,725</u>	<u>\$ 64,276</u>	<u>\$ 3,239</u>	<u>\$ 64,512</u>	<u>\$ 838,752</u>
Business-Type Activities:					
Employment Security	\$ 12			\$ 20,609	\$ 20,621
Sewer Treatment Loan				3	3
Other proprietary	<u>40,653</u>	<u>\$ 24</u>	<u>\$ 228</u>	<u>484</u>	<u>41,389</u>
Total—business-type activities	<u>\$ 40,665</u>	<u>\$ 24</u>	<u>\$ 228</u>	<u>\$ 21,096</u>	<u>\$ 62,013</u>

**K. Component units – condensed financial statements**

Below is the condensed financial statements of the component units for the State of Tennessee as of June 30, 2002 (expressed in thousands):

**CONDENSED STATEMENT OF NET ASSETS  
COMPONENT UNITS**

	<u>Housing Development Agency</u>	<u>Board of Regents</u>	<u>University of Tennessee</u>	<u>Nonmajor Component Units</u>	<u>Total Component Units</u>
<b>ASSETS</b>					
Cash, Investments, and Other Assets	\$ 2,172,173	\$ 423,556	\$ 883,990	\$ 214,354	\$ 3,694,073
Due from Primary Government		1,118	12,365	10,432	23,915
Due from Other Component Units				420,321	420,321
Restricted Assets	198,928	170,219	211,176	23,420	603,743
Capital Assets, Net	<u>5</u>	<u>1,151,905</u>	<u>835,133</u>	<u>9,942</u>	<u>1,996,985</u>
Total Assets	<u>2,371,106</u>	<u>1,746,798</u>	<u>1,942,664</u>	<u>678,469</u>	<u>6,739,037</u>
<b>LIABILITIES</b>					
Accounts Payable and Other					
Current Liabilities	232,627	250,195	199,203	96,743	778,768
Due to Primary Government	35,420	2,180	2,927	4,128	44,655
Due to Other Component Units		216,000	204,321		420,321
Long-Term Liabilities	<u>1,733,060</u>	<u>45,362</u>	<u>86,268</u>	<u>562,805</u>	<u>2,427,495</u>
Total Liabilities	<u>2,001,107</u>	<u>513,737</u>	<u>492,719</u>	<u>663,676</u>	<u>3,671,239</u>
<b>NET ASSETS</b>					
Invested in Capital, Net of Related Debt	5	924,242	636,282	5,226	1,565,755
Restricted	359,618	81,471	579,244	1,689	1,022,022
Unrestricted	<u>10,376</u>	<u>227,348</u>	<u>234,419</u>	<u>7,878</u>	<u>480,021</u>
Total Net Assets	<u>\$ 369,999</u>	<u>\$ 1,233,061</u>	<u>\$ 1,449,945</u>	<u>\$ 14,793</u>	<u>\$ 3,067,798</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

CONDENSED STATEMENT OF ACTIVITIES  
COMPONENT UNITS

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>
COMPONENT UNITS:				
HOUSING DEVELOPMENT				
AGENCY	\$ 293,987	\$ 117,042	\$ 172,443	
BOARD OF REGENTS	1,440,499	439,878	319,250	\$ 97,863
UNIVERSITY OF TENNESSEE	1,311,368	438,521	422,944	42,961
NONMAJOR COMPONENT UNITS	<u>154,449</u>	<u>56,268</u>	<u>52,153</u>	<u></u>
TOTAL	<u>\$ 3,200,303</u>	<u>\$ 1,051,709</u>	<u>\$ 966,790</u>	<u>\$ 140,824</u>
GENERAL REVENUES:				
PAYMENTS FROM PRIMARY GOVERNMENT				
UNRESTRICTED GRANTS AND CONTRIBUTIONS				
CONTRIBUTIONS TO PERMANENT FUNDS				
UNRESTRICTED INVESTMENT EARNINGS				
MISCELLANEOUS				
TOTAL GENERAL REVENUES				
CHANGE IN NET ASSETS				
NET ASSETS – JULY 1				
NET ASSETS – JUNE 30				

Significant transactions between the major component units—Tennessee Board of Regents (TBR), University of Tennessee (UT), and Tennessee Housing Development Authority (THDA)—and the primary government consist of the following:

State appropriations from the Education Fund in the amount of \$612.9 million were made to the TBR and \$415.921 million to the UT.

Capital expenditures in the amount of \$54.905 million were made for the TBR and \$34.102 million to the UT in the form of capital assets acquired or constructed.

The TBR paid the primary government \$11.636 million to manage construction projects that were not a part of the capital appropriations.

The THDA paid to the General Fund \$35.367 million that consisted of tax revenues previously directed to the THDA.

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2002, the Authority's loan receivable (expressed in thousands) consisted of:

	<u>Current</u>	<u>Noncurrent</u>
Tennessee Board of Regents	\$ 11,099	\$ 204,901
University of Tennessee	<u>15,330</u>	<u>188,991</u>
Total	<u>\$ 26,429</u>	<u>\$ 393,892</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>				
<u>HOUSING DEVELOPMENT AGENCY</u>	<u>BOARD OF REGENTS</u>	<u>UNIVERSITY OF TENNESSEE</u>	<u>NONMAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
\$ (4,502)				\$ (4,502)
	\$ (583,508)			(583,508)
		\$ (406,942)		(406,942)
			\$ (46,028)	(46,028)
<u>\$ (4,502)</u>	<u>\$ (583,508)</u>	<u>\$ (406,942)</u>	<u>\$ (46,028)</u>	<u>\$ (1,040,980)</u>
	612,900	415,921	45,697	1,074,518
	4,971	5,274	25	10,270
	96	23,939		24,035
299	11,548	13,923	212	25,982
	4,564	175		4,739
<u>299</u>	<u>634,079</u>	<u>459,232</u>	<u>45,934</u>	<u>1,139,544</u>
(4,203)	50,571	52,290	(94)	98,564
<u>374,202</u>	<u>1,182,490</u>	<u>1,397,655</u>	<u>14,887</u>	<u>2,969,234</u>
<u>\$ 369,999</u>	<u>\$ 1,233,061</u>	<u>\$ 1,449,945</u>	<u>\$ 14,793</u>	<u>\$ 3,067,798</u>



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**L. Major component units – long term debt**

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2002, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, various Series, 1.85% to 8.125%, due in amounts of principal and interest ranging from \$105.6 million in 2003 to \$2.71 million in 2034	\$ 1,828,621
Less: Unamortized bond refunding costs	(8,227)
Net Bonds Payable	<u>\$ 1,820,394</u>
Homeownership Program Convertible Drawdown Notes, at 1.608% interest rate due December 2002	<u>\$ 67,909</u>

The revenue bonds and notes listed above are not obligations of the State. They are secured by pledge from the facilities to which they relate and by certain other revenues, fees and assets of the THDA.

Bond sales during the year ended June 30, 2002, included the following issues:

August 2001 – Program bonds of \$60 million  
December 2001 – Program bonds of \$64.58 million  
April 2002 – Program bonds of \$85 million

On December 13, 2001, the agency issued \$64.580 million in Homeownership Program Bonds, Issue 2001–3 A & B to redeem notes.

On April 18, 2002, the agency issued \$85 million in Homeownership Program Bonds, Issue 2002–1 A and B. On June 13, 2002, the agency used \$42.055 million of these bonds to redeem notes.

Current Refundings

During the year ended June 30, 2002, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$2.455 million and in the Homeownership Program in the amount of \$20.758 million. The respective carrying values of these bonds were \$2.435 million and \$20.62 million. This resulted in a loss to the Mortgage Finance Program of \$20 thousand and the Homeownership Program of \$138 thousand.

On July 1, 2001, the agency used \$127.542 million of Bond Issue 2001-1 A, B, C and D to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The agency's funds were used for the \$1.929 million call premium. The carrying amount of those bonds was \$126.587 million. The refunding resulted in a difference of \$2.884 million between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032. The refunding decreased the agency's debt service over the next 31 years by \$5.258 million and the agency realized an economic gain (the difference between the present values of the old and the new debt service payments) of \$18.486 million. Also, on this date, the agency used \$8.98 million of Single Family Mortgage Program Notes to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$8.973 million. The refunding resulted in a difference of \$7 thousand between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, the change in debt service nor the economic gain disclosures are appropriate.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

On August 30, 2001, the agency issued \$60 million in Homeownership Program Bonds, Issue 2001-2 A and B. On October 1, 2001, the agency used \$33.74 million of these bonds to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$33.489 million. The refunding resulted in a difference of \$251 thousand between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The refunding decreased the agency's debt service by \$6.876 million over the next 31 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5.095 million.

On December 13, 2001, the agency issued (short-term) notes to refund \$32.295 million of bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$32.142 million. The refunding resulted in a difference of \$153 thousand between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, the change in debt service nor the economic gain disclosures are appropriate.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2002, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2003	\$ 105,625	\$ 96,155	\$ 201,780
2004	44,127	93,052	137,179
2005	49,700	92,496	142,196
2006	55,047	92,012	147,059
2007	57,221	89,976	147,197
2008-2012	214,663	400,288	614,951
2013-2017	226,402	370,100	596,502
2018-2022	310,146	266,131	576,277
2023-2027	330,105	174,288	504,393
2028-2032	370,370	79,707	450,077
2033-2034	<u>47,825</u>	<u>1,518</u>	<u>49,343</u>
	<u>\$ 1,811,231</u>	<u>\$ 1,755,723</u>	<u>\$ 3,566,954</u>

The above principal for revenue bonds is less than that presented on the accompanying financial statements by \$9.163 million. Of this amount, \$17.39 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2002-2017). In addition, \$8.227 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of \$65 million. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$200 million. The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2002 (expressed in thousands).

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$84,865	\$109,881	\$126,837	\$67,909

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**M. Nonmajor component units – long term debt**

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2002, are shown below (expressed in thousands):

Revenue bonds, 4.75% to 5.75%, due in generally decreasing amounts of principal and interest from \$7 million in 2003 to \$16 thousand in 2022	\$ 52,137
Less: Unamortized bond refunding costs	<u>(1,473)</u>
Net Bonds Payable	<u>\$ 50,664</u>
Revenue bond anticipation notes, \$51.513 million at 2.75% due June 2003	<u>\$ 51,513</u>

The revenue bonds and revenue bond anticipation notes listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TLDA.

Prior Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds of the Community Provider Programs by placing the proceeds of general obligation notes in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2002, \$19.19 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2002, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2003	\$ 4,174	\$ 2,784	\$ 6,958
2004	4,064	2,571	6,635
2005	4,204	2,358	6,562
2006	3,494	2,138	5,632
2007	3,213	1,956	5,169
2008-2012	18,015	7,012	25,027
2013-2017	13,278	2,542	15,820
2018-2022	1,695	204	1,899
	<u>\$ 52,137</u>	<u>\$ 21,565</u>	<u>\$ 73,702</u>

The above principal for revenue bonds does not reflect a \$1.473 million deduction from bonds payable for the deferred amount on refunding.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2002, are shown below (expressed in thousands):

Revenue bonds, various Series, 3% to 7.75%, due in decreasing amounts of principal and interest from \$45.615 million in 2003 to \$5.615 million in 2032	\$ 473,572
Less: Unamortized bond refunding costs	<u>(2,436)</u>
Net Bonds Payable	<u>\$ 471,136</u>
Commercial paper, variable rate	<u>\$ 13,757</u>

The revenue bonds and commercial paper listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TSSBA.

On April 18, 2002, the authority issued the 2002 Series A tax-exempt bonds in the amount of \$119.135 million to redeem \$73.42 million of the Authority's tax-exempt commercial paper. The balance of the proceeds was used to pay for new construction projects and various costs of issuance.

On December 18, 2001, the authority issued \$11.33 million of Qualified Zone Academy Bonds (QZABs) to finance improvement loans for qualifying primary and secondary (K-12) schools in the State. The bonds are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds. On each December 18, the 2001 QZAB borrowers make annual principal payment into a bond fund held by the State Treasurer to pay the bonds at maturity on December 18, 2015.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2002, \$77.615 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2002, are as follows (expressed in thousands):

For the Year(s) Ended June 30	<u>Revenue Bonds</u>		Total <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2003	\$ 20,985	\$ 24,631	\$ 45,616
2004	22,105	23,529	45,634
2005	19,760	22,545	42,305
2006	17,811	21,668	39,479
2007	18,048	20,905	38,953
2008-2012	103,764	87,664	191,428
2013-2017	89,227	59,522	148,749
2018-2022	71,964	38,840	110,804
2023-2027	62,136	20,556	82,692
2028-2032	38,272	5,474	43,746
	<u>\$464,072</u>	<u>\$325,334</u>	<u>\$ 789,406</u>

The above principal for revenue bonds is less than that presented on the accompanying financial statements by \$7.064 million. Of this amount, \$9.5 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2003-2010). In addition, \$2.436 million, which is a deduction from bonds payable for the deferred amount on refunding, is not reflected in above presentation.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed \$150 million. At June 30, 2002, \$13.757 million of tax-exempt commercial paper was outstanding.

The commercial paper is a special obligation of the Authority. The commercial paper dealer is J. P. Morgan. Commercial paper principal and interest may be paid from: (i) the proceeds of draws on the Liquidity Facility, (ii) Available Revenues, (iii) the moneys and securities (if any) on deposit in the commercial paper and reimbursement account and in the Debt Service Fund, (iv) the moneys and securities (if any) on deposit in the Project Construction Account for such projects, and (v) the proceeds of bonds, notes or other evidences of indebtedness to the extent set aside to make such payments. The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under an Advance Agreement, is *Westdeutsche Landesbank Girozentrale*, New York branch. The total available commitment is \$152.25 million. The obligation of *Westdeutsche Landesbank Girozentrale* is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

**N. Endowments – component units**

If a donor has not provided specific instructions to the University of Tennessee, state law permits the University to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the University is required to consider the University's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2002, net appreciation of \$117.997 million is available to be spent, of which \$113.007 million is restricted to specific purposes.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**O. Component units – changes in long term obligations**

A summary of changes in long term obligations for the year ended June 30, 2002, follows (expressed in thousands).

**Changes In Long Term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee Loans Payable	\$ 191,377	\$ 65,969	\$ (54,972)	\$ 202,374	\$ 20,973
Tennessee Board of Regents Loans and Notes Payable	195,812	56,670	(34,286)	218,196	11,468
Tennessee Housing Development Agency Bonds Payable	1,856,326	447,591	(475,296)	1,828,621	106,310
Less Deferred Amount on Refunding	(5,831)	(3,134)	738	(8,227)	
Tennessee Housing Development Agency Notes Payable	84,865	110,040	(126,920)	67,985	67,909
Less Deferred Amount On Refunding		(159)	83	(76)	
Nonmajor component units Bonds, Notes, and Loans Payable	565,631	230,773	(156,093)	640,311	81,318
Less Deferred Amount on Refunding	<u>(4,141)</u>	<u>          </u>	<u>232</u>	<u>(3,909)</u>	<u>          </u>
Total Revenue Bonds, Notes and Loans Payable	\$ 2,884,039	\$ 907,750	\$ (846,514)	\$ 2,945,275	\$ 287,978
University of Tennessee Compensated Absences	54,722	28,386	(23,918)	59,190	23,918
University of Tennessee Due to Grantors, Deferred Revenue, and Annuities Payable	57,799	1,367	(580)	58,586	
Tennessee Board of Regents Compensated Absences	38,134	20,996	(17,849)	41,281	17,152
Tennessee Board of Regents Due to Grantors and Deferred Revenue	12,403	79,326	(72,322)	19,407	
Tennessee Housing Development Agency Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	21,694	7,714	(10,699)	18,709	
Tennessee Housing Development Agency Compensated Absences	468	449	(394)	523	256
Nonmajor component units Compensated absences	1,398	1,304	(1,182)	1,520	942
Nonmajor component units Capital Leases	88	92	(30)	150	41
Nonmajor component units Deferred Revenue	<u>10,061</u>	<u>41,147</u>	<u>(44,175)</u>	<u>7,033</u>	<u>          </u>
Component units Long-Term Liabilities	<u>\$ 3,080,806</u>	<u>\$ 1,088,531</u>	<u>\$ (1,017,663)</u>	<u>\$ 3,151,674</u>	<u>\$ 330,287</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the State. The nonmajor component units bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents loans payable are based.

**NOTE 6 – Other information**

**A. Risk management**

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2002, included 122 local education agencies and two education cooperatives, with 41,161 teachers and support personnel, and 3,037 retirees enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State does not retain any risk for losses by this fund.

The Teacher Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and insure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2002, the Local Education Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of: 12% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

	<u>2002</u>	<u>2001</u>
Unpaid Claims at Beginning of Year	\$ 23,284	\$ 17,516
Incurring Claims:		
Provision for insured events of the current year	199,521	167,447
Increase (decrease) in provision for insured events of prior years	<u>(6,362)</u>	<u>(4,131)</u>
Total Incurred Claims Expenses	<u>216,443</u>	<u>180,832</u>
Payments:		
Claims attributable to insured events of the current year	175,578	144,163
Claims attributable to insured events of prior years	<u>16,922</u>	<u>13,385</u>
Total Payments	<u>192,500</u>	<u>157,548</u>
Total Unpaid Claims at End of the Year	<u>\$ 23,943</u>	<u>\$ 23,284</u>

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2002, included 48 counties, 100 municipalities and 229 quasi-governmental organizations, with 21,317 employees and 651 retirees maintaining coverage through one of three options: preferred provider plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and insure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2002, the Local Government Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of: 12% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Unpaid Claims at Beginning of Year	\$ 8,302	\$ 3,910
Incurred Claims:		
Provision for insured events of the current year	98,389	61,264
Increase (decrease) in provision for insured events of prior years	<u>(1,102)</u>	<u>60</u>
Total Incurred Claims Expenses	<u>105,589</u>	<u>65,234</u>
Payments:		
Claims attributable to insured events of the current year	86,582	52,962
Claims attributable to insured events of prior years	<u>7,200</u>	<u>3,970</u>
Total Payments	<u>93,782</u>	<u>56,932</u>
Total Unpaid Claims at End of the Year	<u>\$ 11,807</u>	<u>\$ 8,302</u>

3. Risk Management - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Claims Award Fund (CAF). CAF services claims for risk of loss to which the State is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. All agencies and authorities of the State participate in CAF, except for the Supreme Court Boards, The Dairy Promotion Board, and Certified Cotton Growers' Organization (a component unit). CAF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the State as a whole. An actuarial valuation is performed as of each fiscal year end to determine the fund liability and premium allocation.

CAF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2002, the amount of these liabilities was \$80.9 million, which are discounted at 3.25%. Changes in the balances of claims liabilities during fiscal years 2001 and 2002 were as follows (expressed in thousands):

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

	Beginning of Fiscal Year <u>Liability</u>	Current Year Claims and <u>Changes in Estimates</u>	Claim <u>Payments</u>	Balance at Fiscal <u>Year-End</u>
2000-2001	\$ 63,107	\$ 30,040	\$ ( 23,308)	\$ 69,839
2001-2002	\$ 69,839	\$ 39,187	\$ ( 28,116)	\$ 80,910

At June 30, 2002, CAF held \$72.7 million in cash and cash equivalents designated for payment of these claims.

The State purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The insurance policy deductibles vary from \$1 million to \$5 million by type of risk coverage. Based on past experience, a designation of \$5 million for deductibles and \$1.356 million for incurred losses has been established in the General Fund.

In fiscal year 2000, the cost to repair tornado damage at Austin Peay State University exceeded insurance coverage by \$6.196 million.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees, retirees, and former employees with work related injuries are eligible to participate. Fund members at June 30, 2002, included 65,581 employees and 6,121 retirees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2002, the State Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of: 12% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

As discussed above, the Employee Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

	<u>2002</u>	<u>2001</u>
Unpaid Claims at Beginning of Year	\$ 39,641	\$ 34,391
Incurred Claims:		
Provision for insured events of the current year	379,474	291,580
Increase (decrease) in provision for insured events of prior years	<u>(7,233)</u>	<u>(11,618)</u>
Total Incurred Claims Expenses	<u>411,882</u>	<u>314,353</u>
Payments:		
Claims attributable to insured events of the current year	333,937	251,939
Claims attributable to insured events of prior years	<u>32,408</u>	<u>22,773</u>
Total Payments	<u>366,345</u>	<u>274,712</u>
Total Unpaid Claims at End of the Year	<u>\$ 45,537</u>	<u>\$ 39,641</u>

5. Medicare Supplement Insurance – In 1988, the State of Tennessee adopted legislation authorizing the provision of Medicare Supplement coverage for qualified retired state employees and teachers. Instituted in January 1989, the coverage was offered on a fully insured basis through December 2000. On January 1, 2001, the financial arrangement was converted to self-insured and a third plan option offered to participants.

In accordance with Tennessee Code Annotated 8-27-701, et. seq, the State Insurance Committee established a Medicare Supplement Insurance Fund, a public entity risk pool, on January 1, 2001. Fund members at June 30, 2002, include 20,869 retirees and dependents who selected one of three plan offerings; Plan One (NAIC Plan D), Plan Two (NAIC Plan H) and Plan Three (a PPO maintenance of benefit option).

The Medicare Supplement Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient for fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premiums on time, provide for the filing of claims for services received, and report changes in eligibility of themselves and their dependents.

The Medicare Supplement Insurance Fund establishes claims liabilities for the self-insured coverage based on estimates of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2002, reserve requirements were established of 16%, based upon claim payments for the prior 12 months. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Medicare Supplement Insurance Fund considers investment income in determining if a premium deficiency exists.

The Medicare Supplement Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Medicare Supplement Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

	<u>2002</u>	<u>2001</u>
Unpaid Claims at Beginning of Year	\$ 1,027	
Incurring Claims:		
Provision for insured events of the current year	30,417	\$ 10,292
Increase (decrease) in provision for insured events of prior years	<u>3,103</u>	<u>          </u>
Total Incurred Claims Expenses	<u>34,547</u>	<u>10,292</u>
Payments:		
Claims attributable to insured events of the current year	25,550	9,265
Claims attributable to insured events of prior years	<u>4,130</u>	<u>          </u>
Total Payments	<u>29,680</u>	<u>9,265</u>
Total Unpaid Claims at End of the Year	<u>\$ 4,867</u>	<u>\$ 1,027</u>

**B. Related organizations**

The State's officials are also responsible for appointing the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making appointments. The State appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Goodwyn Institute Commission, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Competitive Export Corporation, Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., and Sports Festival, Inc.

**C. Jointly governed organizations**

The State in conjunction with 32 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states and Puerto Rico are members of the Southern Growth Policies Board. Tennessee paid \$40,000 in fiscal year 2002 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid \$8,500 in fiscal year 2002 for membership dues.

The Compact for Education was entered into with 49 other states, plus Puerto Rico, the Virgin Islands, American Samoa and District of Columbia. Tennessee paid \$63,600 in fiscal year 2002 for membership dues.

The Interstate Mining Compact has 17 member states, including Tennessee. Tennessee paid \$13,909 in fiscal year 2002 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands.

The Southeast Interstate Low Level Radioactive Waste Compact has 7 member states, including Tennessee.

The Chickasaw Trail Economic Development Compact has two member states in conjunction with one county in each State.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**D. Joint ventures**

The State is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and Mississippi. The purpose of this compact is to promote the development of a navigable waterway connecting the Tennessee and Tombigbee Rivers and provide a nine foot navigable channel. The fiscal year end of the Tennessee Tombigbee Waterway is December 31. Financial statements for the Tennessee Tombigbee Waterway may be obtained at: P. O. Drawer 671, Columbus, MS 39703.

Presented below is summary financial data for this joint venture (expressed in thousands):

	<u>2001</u>	<u>2000</u>
Current Assets	\$ 268	\$ 278
Capital Assets	<u>33</u>	<u>29</u>
Total Assets	<u>301</u>	<u>307</u>
Invested in General Fixed Assets	33	29
Fund Balance	<u>268</u>	<u>278</u>
Total Liabilities and Fund Balance	<u>301</u>	<u>307</u>
Revenues	315	339
Expenditures	<u>325</u>	<u>332</u>
Excess of Revenues over (under) Expenditures	(10)	7
Beginning Fund Balance	<u>278</u>	<u>271</u>
Ending Fund Balance	<u>\$ 268</u>	<u>\$ 278</u>

**E. Post employment health insurance benefits**

1. General - The State offers an opportunity to its employees and eligible retirees to participate in a self-insured indemnity policy (preferred provider plan), a point of service plan, or health maintenance organizations. This post employment benefit is authorized under Tennessee Code Annotated 8-27-205. The indemnity policy provides benefits to plan participants in a comprehensive, major medical format involving a \$250 calendar year deductible and a \$1,250 per individual out-of-pocket limit. The plan incorporates typical provisions relating to utilization review, medical necessity, pre-existing conditions, coordination of benefits and subrogation of expenses. The plan offers benefit incentives for the use of designated providers and the plan maintains limitations on benefits provided for the treatment of mental illness and substance abuse.
2. Retirees - Retirees who are not yet eligible for Medicare benefits may continue participation in the plan subject to certain length of service and participation requirements. Upon Medicare eligibility, the retiree is afforded the opportunity to participate in a self-insured supplement policy not associated with the plan. The State pays a service determined amount for retirees who participate in the state sponsored Medicare supplement policy.

The funds collected for the plan's operation are recorded in the employee group insurance account. The plan's premiums are intended to fund benefits on a pay-as-you-go basis and no specified reserves have been established to fund retiree health benefits. Current retiree premium rates are based upon the retiree's length of service and range from 20 percent to 40 percent of the plan's total premium. The State provides no direct funding of retiree health benefits.

During the 2001-2002 fiscal year, the Preferred Provider Plan provided approximately \$32.6 million in benefits to an average of 4,915 retired employee participants.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

3. Cobra - Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay as you go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The State covered an average of 114 former employees during fiscal year 2001-2002, and the Preferred Provider Plan paid approximately \$689,696 in benefits to this group.

**F. Gain contingencies**

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement includes base payments to all states and territories totaling \$206 billion from 1998 through 2023, and continues in perpetuity. Tennessee's share of the settlement is expected to be \$4.8 billion through the year 2025. Third party lawsuits may affect future payments to Tennessee. Although Tennessee's share of the base payments may not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear.

**G. Pension plans**

1. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

Plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 6.19% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2002, 2001, and 2000, were \$243.498 million, \$232.149 million and \$252.162 million respectively, equal to the required contributions for each year.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 404 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were \$69.2 million for the year ending June 30, 2002.

Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

4. Deferred Compensation - The State offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401 (k). All costs of administering and funding these programs are the responsibility of plan participants.

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2002, contributions totaling \$61.1 million were made by employees participating in the plans. Another \$5.8 million was contributed by the State as matching contributions up to \$20 per employee per month for the 401(k) plan match.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS *(Continued)***  
**JUNE 30, 2002**

**H. Investment pool**

The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of SPIF is the Local Government Investment Pool (LGIP) and is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various funds and component units.

A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-1337.

**I. Loan guarantees**

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures the student loans up to 100% of their principal amounts. At June 30, 2002, TSAC was guarantor of \$2.834 billion in student loans, substantially all of which were reinsured by the USDE. The State has no obligation under these student loan guarantees in the event of default.

**J. Nashville correctional facilities revenue bonds**

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville which were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2002, of \$16.265 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

**K. Litigation**

A class action suit has been brought against the State, alleging that the State has failed to provide services to individuals with mental retardation and other developmental disabilities, which they are entitled to under Medicaid. Presently the State limits the number of individuals served under the Home and Community-Based Services Waiver and the plaintiffs assert that this is a violation of the Medicaid Act.

The small school systems in the State have previously filed suit against the State challenging the constitutionality of the funding formula for elementary and secondary education. In declaring the State's K-12 Better Education Program and its funding formula constitutional, the State Supreme Court also stated that the State must equalize teachers' salaries according to the BEP formula. In response, the General Assembly enacted the Teachers Salary Equity Plan, which plaintiff small school systems have challenged as inadequate. The Supreme Court ruled in the plaintiffs' favor and the Legislature must now address this issue during the 2003 legislative session.

A lawsuit has been filed which challenges the constitutionality of certain deductions used in the calculation of the franchise tax base, as being a violation of the interstate commerce clause. Should the State lose this case, the State could be exposed to significant refunds of franchise tax collections.

The State is also party to numerous other legal proceedings, many of which normally recur in governmental operations. Some of these lawsuits, including the three enumerated above may have a future budgetary programmatic impact, they will be addressed in future budgets.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2002**

**L. Federal grants**

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially, all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies or their representatives. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities when the loss becomes probable and reasonably estimable.

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration (HCFA) performed a review of the provider taxes collected for the period beginning fiscal year 1992 through September 2000. The purpose of the review was to determine whether there was a positive correlation between the nursing home provider taxes and a state grant program for private pay patients of nursing homes (Grant Assistance Program). Because CMS believes there is a positive correlation between the nursing home provider taxes and the nursing home grant assistance program, it concluded that the provider taxes are impermissible resulting in a reduction in federal financial participation. On January 19, 2001, the State received a notice of disallowance for this tax for the period October 1, 1992 through September 30, 2000. On February 16, 2001, the State appealed the disallowance. On June 11, 2001, the State received a second notice of disallowance for the period October 1, 2000 through March 31, 2001. On July 6, 2001, the State appealed the second disallowance and the two disallowances have been consolidated for appeal. If the disallowances were ultimately upheld, then CMS would offset the disallowed amounts against future federal participation in TennCare.

The State eliminated the Grant Assistance Program effective August 1, 2001, and does not believe that the collection of provider taxes after that date will be challenged by CMS. The State has reserved \$50 million in the General Fund toward any potential settlement or return of the disallowance amounts.

Other audits of the Medical Assistance Program (TennCare) have resulted in significant amounts of known and likely questioned costs that could be determined to be disallowances by the U.S. Department of Health and Human Services (HHS). These questioned costs relate to expenditure of resources for ineligible TennCare enrollees and for unauthorized services. The ultimate liability to the federal government, if any, cannot presently be determined. If HHS were to impose a liability, the State would appeal the decision.

Inconsistencies in the rate setting process for residential treatment services provided to children in state custody may have created over-billings to the TennCare Program. Any potential overpayment by HHS because of these inconsistencies cannot be quantified.

**M. Subsequent events**

Primary Government

Subsequent to June 30, the State issued \$41 million in general obligation commercial paper.

Component Units

Subsequent to June 30, Tennessee Housing Development Authority (THDA) issued \$85 million of revenue bonds in July 2002. THDA called revenue bonds in the amount of \$65.251 million in July.

Subsequent to June 30, the Tennessee State School Bond Authority issued \$15.3 million in commercial paper.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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STATE OF TENNESSEE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
REQUIRED SUPPLEMENTARY INFORMATION  
MAJOR GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	GENERAL FUND			VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	
	ORIGINAL	FINAL		
SOURCES OF FINANCIAL RESOURCES:				
FUND BALANCES (BUDGETARY BASIS), JULY 1	\$ 993,240	\$ 993,240	\$ 993,240	
ADD:				
PRIOR YEAR ENCUMBRANCES REAPPROPRIATED	8,476	8,476	8,476	
CONTRACT RESERVES REAPPROPRIATED				
ADJUSTED FUND BALANCES (BUDGETARY BASIS), JULY 1	1,001,716	1,001,716	1,001,716	
REVENUES:				
TAXES	3,767,484	3,767,484	3,519,635	\$ (247,849)
LICENSES, FINES, FEES, AND PERMITS	135,807	135,807	152,083	16,276
INTEREST ON INVESTMENTS	43,500	43,500	37,915	(5,585)
FEDERAL	5,437,475	5,954,980	5,603,008	(351,972)
DEPARTMENTAL SERVICES	1,437,054	1,479,801	1,512,759	32,958
OTHER	15,703	51,070	434,014	382,944
OTHER FINANCING SOURCES:				
TRANSFER IN	163,149	163,149	163,149	
BOND AUTHORIZATIONS				
TOTAL SOURCES OF FINANCIAL RESOURCES	12,001,888	12,597,507	12,424,279	(173,228)
USES OF FINANCIAL RESOURCES:				
EXPENDITURES AND ENCUMBRANCES:				
GENERAL GOVERNMENT				
LEGISLATIVE	37,683	37,694	25,711	11,983
SECRETARY OF STATE	36,882	37,487	27,742	9,745
COMPTROLLER	51,654	52,137	48,537	3,600
TREASURER	28,028	31,408	27,938	3,470
GOVERNOR	3,972	4,284	3,585	699
COMMISSIONS	61,461	62,648	56,337	6,311
FINANCE AND ADMINISTRATION	73,335	73,623	52,683	20,940
PERSONNEL	9,416	11,717	9,588	2,129
GENERAL SERVICES	18,211	18,211	16,825	1,386
REVENUE	62,096	62,096	58,314	3,782
MISCELLANEOUS APPROPRIATIONS	19,483	32,351	12,580	19,771
EDUCATION				
HEALTH AND SOCIAL SERVICES				
VETERANS AFFAIRS	2,905	3,015	2,744	271
LABOR AND WORKFORCE DEVELOPMENT	197,028	197,009	169,640	27,369
TENNCARE	5,881,721	6,381,040	6,107,073	273,967
MENTAL HEALTH AND MENTAL RETARDATION	736,097	756,492	709,798	46,694
HEALTH	388,770	402,346	373,957	28,389
HUMAN SERVICES	1,359,699	1,445,626	1,396,721	48,905
CHILDREN'S SERVICES	526,295	537,186	492,388	44,798
LAW, JUSTICE AND PUBLIC SAFETY				
JUDICIAL	189,840	196,370	185,357	11,013
CORRECTION	510,715	488,417	451,170	37,247
PROBATION AND PAROLE	55,600	55,597	52,983	2,614
MILITARY	41,628	50,806	42,683	8,123
BUREAU OF CRIMINAL INVESTIGATION	42,950	43,579	41,949	1,630
SAFETY	157,103	152,974	138,080	14,894
RECREATION AND RESOURCE DEVELOPMENT				
AGRICULTURE	59,463	62,548	57,575	4,973
TOURIST DEVELOPMENT	12,630	12,630	12,132	498
ENVIRONMENT AND CONSERVATION	193,170	194,261	143,655	50,606
ECONOMIC AND COMMUNITY DEVELOPMENT	99,339	105,998	72,421	33,577
REGULATION OF BUSINESS AND PROFESSIONS				
COMMERCE AND INSURANCE	53,138	53,243	42,820	10,423
FINANCIAL INSTITUTIONS	8,385	8,755	8,273	482
TRANSPORTATION				
STATE SHARED TAXES PAID TO LOCAL GOVERNMENTS	416,369	416,369	416,369	
OTHER FINANCING USES:				
TRANSFER OUT	504,995	541,536	541,536	
TOTAL USES OF FINANCIAL RESOURCES	11,840,061	12,529,453	11,799,164	730,289
FUND BALANCES (BUDGETARY BASIS), JUNE 30	\$ 161,827	\$ 68,054	\$ 625,115	\$ 557,061

EDUCATION FUND				HIGHWAY FUND			
BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
ORIGINAL	FINAL			ORIGINAL	FINAL		
\$ 21,956	\$ 21,956	\$ 21,956		\$ 6,571	\$ 6,571	\$ 6,571	
1,077	1,077	1,077		5,223	5,223	5,223	
				301,719	301,719	301,719	
23,033	23,033	23,033		313,513	313,513	313,513	
3,306,700	3,306,700	3,211,662	\$ (95,038)	704,000	704,000	702,869	\$ (1,131)
1,700	1,700	1,917	217	181,300	181,300	194,340	13,040
543,355	573,079	529,260	(43,819)	664,125	2,486,575	22	22
17,955	17,955	14,654	(3,301)	35,267	31,996	40,066	(1,949,431)
		4,463	4,463			4,308	8,070
456,200	467,769	467,769			80,013	80,013	4,308
				80,000			
4,348,943	4,390,236	4,252,758	(137,478)	1,978,205	3,797,397	1,872,275	(1,925,122)
4,297,837	4,339,424	4,211,198	128,226				
252	402	402		1,753,553	3,541,357	1,564,289	1,977,068
4,298,089	4,339,826	4,211,600	128,226	270,146	270,146	270,146	
\$ 50,854	\$ 50,410	\$ 41,158	\$ (9,252)	1,223	31,223	31,223	
				2,024,922	3,842,726	1,865,658	1,977,068
				\$ (46,717)	\$ (45,329)	\$ 6,617	\$ 51,946

STATE OF TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
RECONCILIATION OF BUDGET TO GAAP  
NOTE TO RSI  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP  
REVENUES AND EXPENDITURES

	GENERAL FUND	EDUCATION FUND	HIGHWAY FUND
<b>SOURCES OF FINANCIAL RESOURCES</b>			
ACTUAL AMOUNTS (BUDGETARY BASIS)	\$ 12,424,279	\$ 4,252,758	\$ 1,872,275
<b>DIFFERENCES- BUDGET TO GAAP:</b>			
THE FUND BALANCE AT THE BEGINNING OF THE FISCAL YEAR IS A BUDGETARY RESOURCE BUT IS NOT A CURRENT-YEAR REVENUE FOR FINANCIAL STATEMENT PURPOSES.	(1,001,716)	(23,033)	(313,513)
TRANSFERS FROM OTHER FUNDS ARE INFLOWS OF BUDGETARY RESOURCES, BUT ARE NOT REVENUES FOR FINANCIAL STATEMENT PURPOSES.	<u>(163,149)</u>	<u>(467,769)</u>	<u>(80,013)</u>
TOTAL REVENUES AS REPORTED ON THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	<u>\$ 11,259,414</u>	<u>\$ 3,761,956</u>	<u>\$ 1,478,749</u>
<b>USES OF FINANCIAL RESOURCES</b>			
ACTUAL AMOUNTS (BUDGETARY BASIS)	\$ 11,799,164	\$ 4,211,600	\$ 1,865,658
<b>DIFFERENCES- BUDGET TO GAAP:</b>			
ENCUMBRANCES FOR SUPPLIES, EQUIPMENT, AND CONSTRUCTION ARE REPORTED IN THE YEAR THE ORDER IS PLACED FOR BUDGETARY PURPOSES, BUT IN THE YEAR THE GOODS OR SERVICES ARE RECEIVED FOR FINANCIAL REPORTING PURPOSES.	(6,426)	(548)	(252,635)
TRANSFERS TO OTHER FUNDS ARE OUTFLOWS OF BUDGETARY RESOURCES, BUT ARE NOT EXPENDITURES FOR FINANCIAL STATEMENT PURPOSES.	<u>(541,536)</u>	<u>(402)</u>	<u>(31,223)</u>
TOTAL EXPENDITURES AS REPORTED ON THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	<u>\$ 11,251,202</u>	<u>\$ 4,210,650</u>	<u>\$ 1,581,800</u>

**STATE OF TENNESSEE**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**  
**Infrastructure Assets Reported Using the Modified Approach**

**ROADWAYS**

Measurement Scale

The State uses a Maintenance Rating Index (MRI) that addresses all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, are inspected annually and rated in accordance with the MRI criteria. (For the year ended June 30, 2002, 6,691 segments were inspected.) The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, crossdrain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level

The State intends to maintain roadways so that the reported condition level each year does not fall below 75.

Assessed Conditions

The condition assessment for roadways for the year ended June 30, 2002 was 87.75.

**BRIDGES**

Measurement Scale

The State maintains information on its 8,028 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

The State intends to maintain bridges so that 75 percent or more of the total deck area is not classified as structurally deficient or functionally obsolete.

Assessed Conditions

The following table presents the percentage of deck area whose condition assessment did not meet the criteria of structurally deficient or functionally obsolete according to the NBI.

<u>For the Two-Year Period Ended</u>	<u>Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete</u>
June 30, 2002	79.86%
June 30, 2000	82.35%
June 30, 1998	79.39%

**ESTIMATED AND ACTUAL COSTS TO MAINTAIN**

The following table presents the State's estimate of spending to preserve and maintain the roadways and bridges at, or above, the "Established Condition Level" cited above, and the actual amount spent (in thousands) for the year ended June 30, 2002.

	<u>Roadways</u>	<u>Bridges</u>
Estimated	\$ 290,583	\$ 28,830
Actual	\$ 278,683	\$ 20,527

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting. Additional years will be reported when data is available.



# SUPPLEMENTARY INFORMATION

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## NONMAJOR GOVERNMENTAL FUNDS

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Special Revenue Funds – Description of these funds is found later in this section.

Debt Service Fund - The Debt Service Fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Capital Projects Fund – The Capital Projects Fund is maintained to account for the acquisition or construction of major governmental general fixed assets financed principally by long-term bonds.

Permanent Funds – Description of these funds is found later in this section.



STATE OF TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE  
JUNE 30, 2002

(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	\$ 219,275	\$ 90	\$ 148,101	\$ 22,331	\$ 389,797
INVESTMENTS	1,112			199,410	200,522
RECEIVABLES:					
TAXES	5,181	4,116		25	9,322
DUE FROM OTHER GOVERNMENTS	3,340		1,393		4,733
INTEREST				1,476	1,476
OTHER	281			5	286
DUE FROM OTHER FUNDS	1				1
DUE FROM COMPONENT UNITS			70	1,166	1,236
PREPAYMENTS	14				14
LOANS RECEIVABLE	11,567	12,300			23,867
RESTRICTED ASSETS:					
CASH AND CASH EQUIVALENTS		4,498	9,859		14,357
<b>TOTAL ASSETS</b>	<b>\$ 240,771</b>	<b>\$ 21,004</b>	<b>\$ 159,423</b>	<b>\$ 224,413</b>	<b>\$ 645,611</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
ACCOUNTS PAYABLE AND ACCRUALS	\$ 28,926	\$ 3,549	\$ 8,545		\$ 41,020
DUE TO OTHER FUNDS	307				307
DUE TO COMPONENT UNITS			11,127	\$ 2,356	13,483
DEFERRED REVENUE	1,860	12,928	1		14,789
DEPOSITS PAYABLE	1				1
<b>TOTAL LIABILITIES</b>	<b>31,094</b>	<b>16,477</b>	<b>19,673</b>	<b>2,356</b>	<b>69,600</b>
<b>FUND BALANCES:</b>					
RESERVED FOR:					
RELATED ASSETS	14				14
ENCUMBRANCES AND CONTRACTS	3,054		35,399		38,453
SPECIFIC PURPOSES:					
WILDLIFE RESOURCES	32,311				32,311
CRIMINAL INJURIES	1,846				1,846
ENVIRONMENTAL PROGRAMS	35,085				35,085
JOB SKILLS	30,020				30,020
ENHANCED 911 SERVICE	35,692				35,692
PARKS ACQUISITION	12,997				12,997
COMMUNITY DEVELOPMENT	30,417				30,417
CAPITAL PROJECTS			104,351		104,351
OTHER SPECIFIC PURPOSES	28,241	4,527			32,768
PERMANENT FUNDS:					
NONEXPENDABLE				208,450	208,450
EXPENDABLE				13,607	13,607
<b>TOTAL FUND BALANCES</b>	<b>209,677</b>	<b>4,527</b>	<b>139,750</b>	<b>222,057</b>	<b>576,011</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 240,771</b>	<b>\$ 21,004</b>	<b>\$ 159,423</b>	<b>\$ 224,413</b>	<b>\$ 645,611</b>

STATE OF TENNESSEE  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>REVENUES</b>					
TAXES:					
SALES		\$ 38,449			\$ 38,449
FUEL	\$ 17,742	80,000			97,742
BUSINESS	3,992	115,033			119,025
OTHER	29,060				29,060
LICENSES, FINES, FEES, AND PERMITS	108,539	2,518		\$ 1,523	112,580
INTEREST ON INVESTMENTS	8,131			(9,450)	(1,319)
FEDERAL	18,643		\$ 6,593		25,236
DEPARTMENTAL SERVICES	14,851	1,500	23,421		39,772
OTHER	1,592			73	1,665
	<u>202,550</u>	<u>237,500</u>	<u>30,014</u>	<u>(7,854)</u>	<u>462,210</u>
TOTAL REVENUES					
<b>EXPENDITURES</b>					
GENERAL GOVERNMENT	19,269				19,269
EDUCATION				7,987	7,987
LAW, JUSTICE AND PUBLIC SAFETY	4,827				4,827
RECREATION AND RESOURCES					
DEVELOPMENT	160,991			144	161,135
REGULATION OF BUSINESS AND					
PROFESSIONS	13,969				13,969
DEBT SERVICE:					
BOND PRINCIPAL RETIREMENT		66,804			66,804
COMMERCIAL PAPER RETIREMENT		1,500			1,500
BOND INTEREST		50,563			50,563
COMMERCIAL PAPER INTEREST		3,558			3,558
DEBT ISSUANCE COSTS		1,282			1,282
CAPITAL OUTLAY			145,590		145,590
	<u>199,056</u>	<u>123,707</u>	<u>145,590</u>	<u>8,131</u>	<u>476,484</u>
TOTAL EXPENDITURES					
EXCESS (DEFICIENCY) OF REVENUES					
OVER (UNDER) EXPENDITURES	3,494	113,793	(115,576)	(15,985)	(14,274)
<b>OTHER FINANCING SOURCES(USES)</b>					
BOND AND COMMERCIAL PAPER PROCEEDS			168,017		168,017
COMMERCIAL PAPER REDEEMED			(152,091)		(152,091)
PREMIUM ON BOND SALES		5,149			5,149
TRANSFERS IN	2,573	5,998	46,343	252	55,166
TRANSFERS OUT	(88,858)	(123,820)	(1,974)		(214,652)
	<u>(86,285)</u>	<u>(112,673)</u>	<u>60,295</u>	<u>252</u>	<u>(138,411)</u>
TOTAL OTHER FINANCING					
SOURCES(USES)					
NET CHANGES IN FUND BALANCES	(82,791)	1,120	(55,281)	(15,733)	(152,685)
FUND BALANCES, JULY 1	292,468	3,407	195,031	237,790	728,696
FUND BALANCES, JUNE 30	\$ <u>209,677</u>	\$ <u>4,527</u>	\$ <u>139,750</u>	\$ <u>222,057</u>	\$ <u>576,011</u>

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# NONMAJOR SPECIAL REVENUE FUNDS

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**Specific revenues, earmarked to finance particular activities of government, are accounted for in the Special Revenue Funds. A brief description of each fund follows.**

Wildlife Resources Agency - This agency is responsible for the preservation, management, enhancement and protection of the state's wildlife resources and their environs. An additional responsibility is the enforcement of boating safety on state lakes and streams. Revenues are derived principally from hunting and fishing licenses, fees and permits.

Criminal Injuries Compensation - The Treasury Department administers this fund for the award of compensation to victims (or their dependents) who suffer personal injury or death as a result of a criminal act. The primary revenue source is the privilege tax levied by the courts at the time of conviction of the offender.

Solid Waste - This program is administered by the Department of Environment and Conservation. Revenues collected for a tipping fee on solid waste are used to provide grants to local governments to reduce the solid waste going into landfills.

Job Skills - This program is administered by the Department of Economic and Community Development. Revenues are collected from a tax on employer's wages. The revenues will be used to enhance employment opportunities and to meet the needs of existing and new industries in the state.

Environmental Protection - This program is administered by the Department of Environment and Conservation. Revenues collected from the various fees under the environmental protection fund are used to offset the cost of administering regulatory environmental programs.

Hazardous Waste - This program is administered by the Department of Environment and Conservation. Revenues collected from applicants and holders of storage, treatment or disposal permits of hazardous waste are used to supervise the construction, operation, maintenance, closure and, where necessary, the post-closure care of hazardous waste facilities.

Parks Acquisition - This program is administered jointly by the Departments of Environment and Conservation, Agriculture and Wildlife Resources. Revenues collected from the transfer of real property are used to acquire parks by both local and state governments.

Supreme Court Boards - This organization was formed by the Tennessee Supreme Court to consider and investigate any alleged ground for discipline or alleged incapacity of any attorney, to provide continuing legal education for attorneys and to protect clients from dishonest conduct by attorneys. Revenues are collected from attorneys.

Underground Storage Tanks - This program is administered by the Department of Environment and Conservation. Revenues are collected primarily from a tax of four tenths of a cent per gallon on petroleum products and an annual fee on owners and operators of underground storage tanks containing petroleum substances.

Enhanced Emergency 911 Service - This program is administered by the Department of Commerce and Insurance. Revenues are collected from a monthly fee on users of cellular telephone services. This fee is used to enhance the effectiveness of response times when a cellular user calls 911.

Community Development - This fund is used to account for the federal monies received under the Community Development Block Grant Program.

Driver Education - This program is designed and coordinated by the Department of Safety. Highway safety is promoted by providing driver education, instruction and training in schools, colleges and community organizations. The \$2 fee for moving traffic violations is the source of funding for this program.

Abandoned Land Program - This program is administered by the Department of Environment and Conservation. Revenues collected from surface mining permit fees and forfeited performance bonds are used to reclaim and restore lands affected by abandoned mining operations.

Agricultural Non-Point Water Pollution - This program is administered by the Department of Agriculture. Revenues collected from the transfer of real property are used to abate pollution from agricultural sources.

Regulatory Boards - This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees assessed on licenses to real estate brokers, affiliate real estate brokers or auctioneers. These revenues are used to pay court judgments for violations by brokers, contractors or auctioneers of the applicable acts or of any rules promulgated by the appropriate officials.

Salvage Title Enforcement - This program is administered by the Department of Safety. Revenues are collected on the titlement of salvage vehicles and are used to enforce motor vehicle title and salvage laws and inspection of rebuilt vehicles.

Dairy Promotion Board - This Board was formed to promote the consumption of milk and milk products. Revenue is derived from an assessment against commercial milk and milk product producers.

Drycleaner's Environmental Response - This program is administered by the Department of Environment and Conservation. Revenues collected from drycleaners are an annual registration fee and a fee for the various drycleaning solvents used.

Agricultural Regulatory Fund - This program is administered by the Department of Agriculture. Revenues are collected from fees on the various agricultural related industries regulated by the department. These fees are then used in the administration of this regulatory function.

Tennessee Regulatory Authority - The authority is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

Small and Minority Telecommunication - This program provides loan guarantees and technical assistance to small and minority-owned telecommunication companies. Revenues collected during fiscal years 1997-2001, were derived from a fee on telecommunication service providers.

Sex Offender Treatment Program - This program was formed to standardize the evaluation, identification, treatment and continued monitoring of sex-offenders. Revenue is derived from a fine on those convicted of a sex-offense.

Fraud and Economic Crime - This program is administered by the District Attorneys General of the State. Revenues are collected from individuals prosecuted for bad checks. These monies are used to increase resources available to prosecute bad check cases.

STATE OF TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	WILDLIFE RESOURCES AGENCY	CRIMINAL INJURIES COMPENSATION	SOLID WASTE	JOB SKILLS	ENVIRONMENTAL PROTECTION
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	\$ 34,060	\$ 6,760	\$ 13,179	\$ 34,801	\$ 10,411
INVESTMENTS					
RECEIVABLES:					
TAXES	739	391	1,388	8	
DUE FROM OTHER GOVERNMENTS	3,009				
OTHER	8		1		
DUE FROM OTHER FUNDS	1				
PREPAYMENTS					
LOANS RECEIVABLE					
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 37,817</u>	<u>\$ 7,151</u>	<u>\$ 14,568</u>	<u>\$ 34,809</u>	<u>\$ 10,411</u>
<b>LIABILITIES AND FUND BALANCES</b>					
LIABILITIES:					
ACCOUNTS PAYABLE AND ACCRUALS	\$ 2,271	\$ 5,305	\$ 2,258	\$ 4,781	\$ 13
DUE TO OTHER FUNDS	192		6	8	
DEFERRED REVENUE	2				
DEPOSITS PAYABLE					
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES	<u>2,465</u>	<u>5,305</u>	<u>2,264</u>	<u>4,789</u>	<u>13</u>
FUND BALANCES:					
RESERVED FOR:					
RELATED ASSETS					
ENCUMBRANCES AND CONTRACTS	3,041				
SPECIFIC PURPOSES:					
WILDLIFE RESOURCES	32,311				
CRIMINAL INJURIES		1,846			
ENVIRONMENTAL PROGRAMS			12,304		10,398
JOB SKILLS				30,020	
ENHANCED 911 SERVICE					
PARKS ACQUISITION					
COMMUNITY DEVELOPMENT					
OTHER SPECIFIC PURPOSES					
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	<u>35,352</u>	<u>1,846</u>	<u>12,304</u>	<u>30,020</u>	<u>10,398</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 37,817</u>	<u>\$ 7,151</u>	<u>\$ 14,568</u>	<u>\$ 34,809</u>	<u>\$ 10,411</u>

(continued on next page)

HAZARDOUS WASTE	PARKS ACQUISITION	SUPREME COURT BOARDS	UNDERGROUND STORAGE TANKS	ENHANCED EMERGENCY 911 SERVICE	COMMUNITY DEVELOPMENT	DRIVER EDUCATION	ABANDONED LAND PROGRAM
\$ 9,041	\$ 13,213	\$ 1,707 1,112	\$ 7,358	\$ 36,741	\$ 18,850	\$ 414	\$ 844
105	689		1,583			42	
1		23	92	243			
		14			11,567		
<u>\$ 9,147</u>	<u>\$ 13,902</u>	<u>\$ 2,856</u>	<u>\$ 9,033</u>	<u>\$ 36,984</u>	<u>\$ 30,417</u>	<u>\$ 456</u>	<u>\$ 844</u>
\$ 1,586 19 1,282	\$ 905	\$ 94 39	\$ 8,402 22 537	\$ 1,289 3		\$ 11 19	
<u>2,887</u>	<u>905</u>	<u>133</u>	<u>8,961</u>	<u>1,292</u>		<u>30</u>	
		14					
6,260			72	35,692			\$ 844
	12,997						
		2,709			\$ 30,417	426	
<u>6,260</u>	<u>12,997</u>	<u>2,723</u>	<u>72</u>	<u>35,692</u>	<u>30,417</u>	<u>426</u>	<u>844</u>
<u>\$ 9,147</u>	<u>\$ 13,902</u>	<u>\$ 2,856</u>	<u>\$ 9,033</u>	<u>\$ 36,984</u>	<u>\$ 30,417</u>	<u>\$ 456</u>	<u>\$ 844</u>

STATE OF TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS (continued)  
JUNE 30, 2002

(Expressed in Thousands)

	AGRICULTURAL NON-POINT WATER POLLUTION	REGULATORY BOARDS	SALVAGE TITLE ENFORCEMENT	DAIRY PROMOTION BOARD	DRYCLEANER'S ENVIRONMENTAL RESPONSE
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	\$ 802	\$ 3,331	\$ 380	\$ 138	\$ 5,761
INVESTMENTS					
RECEIVABLES:					
TAXES	316				
DUE FROM OTHER GOVERNMENTS			8		
OTHER					
DUE FROM OTHER FUNDS					
PREPAYMENTS					
LOANS RECEIVABLE					
TOTAL ASSETS	<u>\$ 1,118</u>	<u>\$ 3,331</u>	<u>\$ 388</u>	<u>\$ 138</u>	<u>\$ 5,761</u>
<b>LIABILITIES AND FUND BALANCES</b>					
LIABILITIES:					
ACCOUNTS PAYABLE AND ACCRUALS	\$ 1,118	\$ 9	\$ 26	\$ 131	\$ 550
DUE TO OTHER FUNDS			4		1
DEFERRED REVENUE					
DEPOSITS PAYABLE					
TOTAL LIABILITIES	<u>1,118</u>	<u>9</u>	<u>30</u>	<u>131</u>	<u>551</u>
FUND BALANCES:					
RESERVED FOR:					
RELATED ASSETS					
ENCUMBRANCES AND CONTRACTS					3
SPECIFIC PURPOSES:					
WILDLIFE RESOURCES					
CRIMINAL INJURIES					
ENVIRONMENTAL PROGRAMS					5,207
JOB SKILLS					
ENHANCED 911 SERVICE					
PARKS ACQUISITION					
COMMUNITY DEVELOPMENT					
OTHER SPECIFIC PURPOSES		<u>3,322</u>	<u>358</u>	<u>7</u>	
TOTAL FUND BALANCES		<u>3,322</u>	<u>358</u>	<u>7</u>	<u>5,210</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,118</u>	<u>\$ 3,331</u>	<u>\$ 388</u>	<u>\$ 138</u>	<u>\$ 5,761</u>

AGRICULTURAL REGULATORY FUND	TENNESSEE REGULATORY AUTHORITY	SMALL AND MINORITY TELECOM- MUNICATION	SEX OFFENDER TREATMENT PROGRAM	FRAUD AND ECONOMIC CRIME	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
\$ 3,953	\$ 3,864	\$ 11,315	\$ 212	\$ 2,140	\$ 219,275 1,112
			25		5,181
	126				3,340
	5				281
					1
					14
					11,567
<u>\$ 3,953</u>	<u>\$ 3,995</u>	<u>\$ 11,315</u>	<u>\$ 237</u>	<u>\$ 2,140</u>	<u>\$ 240,771</u>
	\$ 165	\$ 5	\$ 7		\$ 28,926
	33				307
					1,860
	1				1
	199	5	7		31,094
					14
	10				3,054
					32,311
					1,846
					35,085
					30,020
					35,692
					12,997
					30,417
\$ 3,953	3,786	11,310	230	\$ 2,140	28,241
3,953	3,796	11,310	230	2,140	209,677
<u>\$ 3,953</u>	<u>\$ 3,995</u>	<u>\$ 11,315</u>	<u>\$ 237</u>	<u>\$ 2,140</u>	<u>\$ 240,771</u>



STATE OF TENNESSEE  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	WILDLIFE RESOURCES AGENCY	CRIMINAL INJURIES COMPENSATION	SOLID WASTE	JOB SKILLS	ENVIRONMENTAL PROTECTION
<b>REVENUES</b>					
TAXES:					
FUEL	\$ 496				
BUSINESS				\$ 3,992	
OTHER	7,094	\$ 4,635	\$ 5,542		
LICENSES, FINES, FEES, AND PERMITS	29,622	2,683	4,962		\$ 28,218
INTEREST ON INVESTMENTS	878	2,162	316	958	256
FEDERAL	13,621	2,070			
DEPARTMENTAL SERVICES	11,111		143		
OTHER		608			
	<u>62,822</u>	<u>12,158</u>	<u>10,963</u>	<u>4,950</u>	<u>28,474</u>
TOTAL REVENUES					
<b>EXPENDITURES</b>					
GENERAL GOVERNMENT		12,502			
LAW, JUSTICE AND PUBLIC SAFETY					
RECREATION AND RESOURCES					
DEVELOPMENT	63,987		9,709	9,617	27,421
REGULATION OF BUSINESS AND PROFESSIONS					
	<u>63,987</u>	<u>12,502</u>	<u>9,709</u>	<u>9,617</u>	<u>27,421</u>
TOTAL EXPENDITURES					
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,165)</u>	<u>(344)</u>	<u>1,254</u>	<u>(4,667)</u>	<u>1,053</u>
<b>OTHER FINANCING SOURCES(USES)</b>					
TRANSFERS IN	1,521				
TRANSFERS OUT	<u>(757)</u>	<u>(76,524)</u>			
TOTAL OTHER FINANCING SOURCES(USES)	<u>764</u>	<u>(76,524)</u>			
NET CHANGE IN FUND BALANCES	(401)	(76,868)	1,254	(4,667)	1,053
FUND BALANCES, JULY 1	<u>35,753</u>	<u>78,714</u>	<u>11,050</u>	<u>34,687</u>	<u>9,345</u>
FUND BALANCES, JUNE 30	\$ <u><u>35,352</u></u>	\$ <u><u>1,846</u></u>	\$ <u><u>12,304</u></u>	\$ <u><u>30,020</u></u>	\$ <u><u>10,398</u></u>

(continued on next page)

HAZARDOUS WASTE	PARKS ACQUISITION	SUPREME COURT BOARDS	UNDERGROUND STORAGE TANKS	ENHANCED EMERGENCY 911 SERVICE	COMMUNITY DEVELOPMENT	DRIVER EDUCATION	ABANDONED LAND PROGRAM
			\$ 17,246				
	\$ 7,094						
\$ 230	52	\$ 2,287	2,296	\$ 26,798		\$ 546	\$ 13
847	481	197	207	716	\$ 983		22
3,333	498		1,301				
	52		176				
		84			466		
4,410	8,177	2,568	21,226	27,514	1,449	546	35
		2,417				339	
7,022	8,229		22,088		4,046		
				13,699			
7,022	8,229	2,417	22,088	13,699	4,046	339	
(2,612)	(52)	151	(862)	13,815	(2,597)	207	35
1,052							
	(7,946)					(1,335)	
1,052	(7,946)					(1,335)	
(1,560)	(7,998)	151	(862)	13,815	(2,597)	(1,128)	35
7,820	20,995	2,572	934	21,877	33,014	1,554	809
\$ 6,260	\$ 12,997	\$ 2,723	\$ 72	\$ 35,692	\$ 30,417	\$ 426	\$ 844

STATE OF TENNESSEE  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS (continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	AGRICULTURAL NON-POINT WATER POLLUTION	REGULATORY BOARDS	SALVAGE TITLE ENFORCEMENT	DAIRY PROMOTION BOARD	DRYCLEANER'S ENVIRONMENTAL RESPONSE
<b>REVENUES</b>					
TAXES:					
FUEL					
BUSINESS					
OTHER	\$ 3,274			\$ 1,309	
LICENSES, FINES, FEES, AND PERMITS		\$ 208	\$ 542		\$ 1,208
INTEREST ON INVESTMENTS	73	87		2	161
FEDERAL			10		5
DEPARTMENTAL SERVICES		9			
OTHER					
TOTAL REVENUES	<u>3,347</u>	<u>304</u>	<u>552</u>	<u>1,311</u>	<u>1,374</u>
<b>EXPENDITURES</b>					
GENERAL GOVERNMENT					
LAW, JUSTICE AND PUBLIC SAFETY			651		
RECREATION AND RESOURCES					
DEVELOPMENT	3,539			1,311	1,885
REGULATION OF BUSINESS AND					
PROFESSIONS		270			
TOTAL EXPENDITURES	<u>3,539</u>	<u>270</u>	<u>651</u>	<u>1,311</u>	<u>1,885</u>
EXCESS (DEFICIENCY) OF REVENUES					
OVER (UNDER) EXPENDITURES	<u>(192)</u>	<u>34</u>	<u>(99)</u>		<u>(511)</u>
<b>OTHER FINANCING SOURCES(USES)</b>					
TRANSFERS IN					
TRANSFERS OUT	<u>(2,296)</u>				
TOTAL OTHER FINANCING					
SOURCES(USES)	<u>(2,296)</u>				
NET CHANGE IN FUND BALANCES	(2,488)	34	(99)		(511)
FUND BALANCES, JULY 1	<u>2,488</u>	<u>3,288</u>	<u>457</u>	<u>7</u>	<u>5,721</u>
FUND BALANCES, JUNE 30	<u>\$ -</u>	<u>\$ 3,322</u>	<u>\$ 358</u>	<u>\$ 7</u>	<u>\$ 5,210</u>

AGRICULTURAL REGULATORY FUND	TENNESSEE REGULATORY AUTHORITY	SMALL AND MINORITY TELECOM- MUNICATION	SEX OFFENDER TREATMENT PROGRAM	FRAUD AND ECONOMIC CRIME	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
					\$ 17,742
			\$ 112		3,992
					29,060
\$ 2,016	\$ 6,170			\$ 918	108,539
109	291	\$ 292		1	8,131
	4		23		18,643
				434	14,851
					1,592
<u>2,125</u>	<u>6,465</u>	<u>292</u>	<u>135</u>	<u>1,353</u>	<u>202,550</u>
	6,687	80			19,269
			110	1,310	4,827
2,137					160,991
					13,969
<u>2,137</u>	<u>6,687</u>	<u>80</u>	<u>110</u>	<u>1,310</u>	<u>199,056</u>
<u>(12)</u>	<u>(222)</u>	<u>212</u>	<u>25</u>	<u>43</u>	<u>3,494</u>
					2,573
					(88,858)
					(86,285)
(12)	(222)	212	25	43	(82,791)
<u>3,965</u>	<u>4,018</u>	<u>11,098</u>	<u>205</u>	<u>2,097</u>	<u>292,468</u>
\$ <u>3,953</u>	\$ <u>3,796</u>	\$ <u>11,310</u>	\$ <u>230</u>	\$ <u>2,140</u>	\$ <u>209,677</u>

STATE OF TENNESSEE  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL(BUDGETARY BASIS)  
ALL NONMAJOR BUDGETED SPECIAL REVENUE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	WILDLIFE RESOURCES AGENCY		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
SOURCES OF FINANCIAL RESOURCES:			
FUND BALANCES(BUDGETARY BASIS), JULY 1	\$ 32,750	\$ 32,750	
ADD:			
PRIOR YEAR ENCUMBRANCES LIQUIDATED	713	713	
ADJUSTED FUND BALANCES(BUDGETARY BASIS), JULY 1	33,463	33,463	
REVENUES:			
TAXES	6,700	7,590	\$ 890
LICENSES, FINES, FEES, AND PERMITS	31,400	29,622	(1,778)
INTEREST ON INVESTMENTS		878	878
FEDERAL	13,715	13,621	(94)
DEPARTMENTAL SERVICES	16,010	11,111	(4,899)
OTHER			
OTHER FINANCING SOURCES-TRANSFERS IN	1,521	1,521	
TOTAL SOURCES OF FINANCIAL RESOURCES	102,809	97,806	(5,003)
USES OF FINANCIAL RESOURCES:			
EXPENDITURES AND ENCUMBRANCES:			
TREASURER			
COMMISSIONS			
CORRECTION			
SAFETY			
AGRICULTURE			
ENVIRONMENT AND CONSERVATION			
WILDLIFE RESOURCES	80,315	64,738	15,577
ECONOMIC AND COMMUNITY DEVELOPMENT			
COMMERCE AND INSURANCE			
OTHER FINANCING USES-TRANSFERS OUT	757	757	
TOTAL USES OF FINANCIAL RESOURCES	81,072	65,495	15,577
FUND BALANCES(BUDGETARY BASIS), JUNE 30	\$ 21,737	\$ 32,311	\$ 10,574

(continued on next page)

CRIMINAL INJURIES COMPENSATION			SOLID WASTE		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 78,714	\$ 78,714		\$ 11,050	\$ 11,050	
78,714	78,714		11,050	11,050	
	4,635	\$ 4,635	6,083	5,542	\$ (541)
	2,683	2,683	4,723	4,962	239
	2,162	2,162		316	316
2,070	2,070		234	143	(91)
	608	608			
80,784	90,872	10,088	22,090	22,013	(77)
12,537	12,502	35			
			11,040	9,709	1,331
76,524	76,524				
89,061	89,026	35	11,040	9,709	1,331
\$ (8,277)	\$ 1,846	\$ 10,123	\$ 11,050	\$ 12,304	\$ 1,254

STATE OF TENNESSEE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL(BUDGETARY BASIS)  
 ALL NONMAJOR BUDGETED SPECIAL REVENUE FUNDS (continued)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

		JOB SKILLS	
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
SOURCES OF FINANCIAL RESOURCES:			
FUND BALANCES(BUDGETARY BASIS), JULY 1	\$ 34,687	\$ 34,687	
ADD:			
PRIOR YEAR ENCUMBRANCES LIQUIDATED			
ADJUSTED FUND BALANCES(BUDGETARY BASIS), JULY 1	34,687	34,687	
REVENUES:			
TAXES		3,992	\$ 3,992
LICENSES, FINES, FEES, AND PERMITS			
INTEREST ON INVESTMENTS		958	958
FEDERAL			
DEPARTMENTAL SERVICES	900		(900)
OTHER			
OTHER FINANCING SOURCES-TRANSFERS IN			
TOTAL SOURCES OF FINANCIAL RESOURCES	35,587	39,637	4,050
USES OF FINANCIAL RESOURCES:			
EXPENDITURES AND ENCUMBRANCES:			
TREASURER			
COMMISSIONS			
CORRECTION			
SAFETY			
AGRICULTURE			
ENVIRONMENT AND CONSERVATION			
WILDLIFE RESOURCES			
ECONOMIC AND COMMUNITY DEVELOPMENT	19,122	9,617	9,505
COMMERCE AND INSURANCE			
OTHER FINANCING USES-TRANSFERS OUT			
TOTAL USES OF FINANCIAL RESOURCES	19,122	9,617	9,505
FUND BALANCES(BUDGETARY BASIS), JUNE 30	\$ 16,465	\$ 30,020	\$ 13,555

(continued on next page)

ENVIRONMENTAL PROTECTION		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 9,345	\$ 9,345	
9,345	9,345	
29,185	28,218	\$ (967)
	256	256
38,530	37,819	(711)
32,144	27,421	4,723
32,144	27,421	4,723
\$ 6,386	\$ 10,398	\$ 4,012

HAZARDOUS WASTE		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 7,820	\$ 7,820	
7,820	7,820	
	230	\$ 230
2,564	847	(1,717)
3,732	3,333	(399)
1,052	1,052	
15,168	13,282	(1,886)
10,838	7,022	3,816
10,838	7,022	3,816
\$ 4,330	\$ 6,260	\$ 1,930



STATE OF TENNESSEE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL(BUDGETARY BASIS)  
 ALL NONMAJOR BUDGETED SPECIAL REVENUE FUNDS (continued)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	PARKS ACQUISITION		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
SOURCES OF FINANCIAL RESOURCES:			
FUND BALANCES(BUDGETARY BASIS), JULY 1	\$ 20,995	\$ 20,995	
ADD:			
PRIOR YEAR ENCUMBRANCES LIQUIDATED			
ADJUSTED FUND BALANCES(BUDGETARY BASIS), JULY 1	20,995	20,995	
REVENUES:			
TAXES	10,500	7,094	\$ (3,406)
LICENSES, FINES, FEES, AND PERMITS		52	52
INTEREST ON INVESTMENTS		481	481
FEDERAL		498	498
DEPARTMENTAL SERVICES		52	52
OTHER			
OTHER FINANCING SOURCES-TRANSFERS IN			
TOTAL SOURCES OF FINANCIAL RESOURCES	31,495	29,172	(2,323)
USES OF FINANCIAL RESOURCES:			
EXPENDITURES AND ENCUMBRANCES:			
TREASURER			
COMMISSIONS			
CORRECTION			
SAFETY			
AGRICULTURE			
ENVIRONMENT AND CONSERVATION	10,557	8,229	2,328
WILDLIFE RESOURCES			
ECONOMIC AND COMMUNITY DEVELOPMENT			
COMMERCE AND INSURANCE			
OTHER FINANCING USES-TRANSFERS OUT	7,946	7,946	
TOTAL USES OF FINANCIAL RESOURCES	18,503	16,175	2,328
FUND BALANCES(BUDGETARY BASIS), JUNE 30	\$ 12,992	\$ 12,997	\$ 5

(continued on next page)

UNDERGROUND STORAGE TANKS		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 934	\$ 934	
934	934	
17,000	17,246	\$ 246
2,600	2,296	(304)
	207	207
2,301	1,301	(1,000)
	176	176
22,835	22,160	(675)
23,517	22,088	1,429
23,517	22,088	1,429
\$ (682)	\$ 72	\$ 754

ENHANCED EMERGENCY 911 SERVICE		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 21,872	\$ 21,872	
2	2	
21,874	21,874	
	26,798	\$ 26,798
	716	716
21,874	49,388	27,514
13,696	13,696	
13,696	13,696	
\$ 8,178	\$ 35,692	\$ 27,514

STATE OF TENNESSEE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL(BUDGETARY BASIS)  
 ALL NONMAJOR BUDGETED SPECIAL REVENUE FUNDS (continued)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	DRIVER EDUCATION		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
SOURCES OF FINANCIAL RESOURCES:			
FUND BALANCES(BUDGETARY BASIS), JULY 1	\$ 1,490	\$ 1,490	
ADD:			
PRIOR YEAR ENCUMBRANCES LIQUIDATED			
ADJUSTED FUND BALANCES(BUDGETARY BASIS), JULY 1	1,490	1,490	
REVENUES:			
TAXES			
LICENSES, FINES, FEES, AND PERMITS	459	546	\$ 87
INTEREST ON INVESTMENTS			
FEDERAL			
DEPARTMENTAL SERVICES			
OTHER			
OTHER FINANCING SOURCES-TRANSFERS IN			
TOTAL SOURCES OF FINANCIAL RESOURCES	1,949	2,036	87
USES OF FINANCIAL RESOURCES:			
EXPENDITURES AND ENCUMBRANCES:			
TREASURER			
COMMISSIONS			
CORRECTION			
SAFETY	459	275	184
AGRICULTURE			
ENVIRONMENT AND CONSERVATION			
WILDLIFE RESOURCES			
ECONOMIC AND COMMUNITY DEVELOPMENT			
COMMERCE AND INSURANCE			
OTHER FINANCING USES-TRANSFERS OUT	1,335	1,335	
TOTAL USES OF FINANCIAL RESOURCES	1,794	1,610	184
FUND BALANCES(BUDGETARY BASIS), JUNE 30	\$ 155	\$ 426	\$ 271

(continued on next page)

ABANDONED LAND PROGRAM			AGRICULTURAL NON-POINT WATER POLLUTION		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 809	\$ 809		\$ 2,488	\$ 2,488	
809	809		2,488	2,488	
500	13	\$ (487)	2,905	3,274	\$ 369
	22	22	100	73	(27)
1,309	844	(465)	5,493	5,835	342
500		500	3,567	3,539	28
500		500	2,296	2,296	
500		500	5,863	5,835	28
\$ 809	\$ 844	\$ 35	\$ (370)	\$ -	\$ 370

STATE OF TENNESSEE  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL(BUDGETARY BASIS)  
ALL NONMAJOR BUDGETED SPECIAL REVENUE FUNDS (continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	REGULATORY BOARDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
SOURCES OF FINANCIAL RESOURCES:			
FUND BALANCES(BUDGETARY BASIS), JULY 1	\$ 3,288	\$ 3,288	
ADD:			
PRIOR YEAR ENCUMBRANCES LIQUIDATED			
ADJUSTED FUND BALANCES(BUDGETARY BASIS), JULY 1	3,288	3,288	
REVENUES:			
TAXES			
LICENSES, FINES, FEES, AND PERMITS		208	\$ 208
INTEREST ON INVESTMENTS		87	87
FEDERAL			
DEPARTMENTAL SERVICES		9	9
OTHER			
OTHER FINANCING SOURCES-TRANSFERS IN			
TOTAL SOURCES OF FINANCIAL RESOURCES	3,288	3,592	304
USES OF FINANCIAL RESOURCES:			
EXPENDITURES AND ENCUMBRANCES:			
TREASURER			
COMMISSIONS			
CORRECTION			
SAFETY			
AGRICULTURE			
ENVIRONMENT AND CONSERVATION			
WILDLIFE RESOURCES			
ECONOMIC AND COMMUNITY DEVELOPMENT			
COMMERCE AND INSURANCE	364	270	94
OTHER FINANCING USES-TRANSFERS OUT			
TOTAL USES OF FINANCIAL RESOURCES	364	270	94
FUND BALANCES(BUDGETARY BASIS), JUNE 30	\$ 2,924	\$ 3,322	\$ 398

(continued on next page)

SALVAGE TITLE ENFORCEMENT			DRYCLEANER'S ENVIRONMENTAL RESPONSE		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 457	\$ 457		\$ 5,718	\$ 5,718	
457	457		5,718	5,718	
693	542	\$ (151)	2,384	1,208	\$ (1,176)
	10	10		161	161
				5	5
1,150	1,009	(141)	8,102	7,092	(1,010)
693	651	42	2,384	1,885	499
693	651	42	2,384	1,885	499
\$ 457	\$ 358	\$ (99)	\$ 5,718	\$ 5,207	\$ (511)

STATE OF TENNESSEE  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL(BUDGETARY BASIS)  
ALL NONMAJOR BUDGETED SPECIAL REVENUE FUNDS (continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	AGRICULTURAL REGULATORY FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
SOURCES OF FINANCIAL RESOURCES:			
FUND BALANCES(BUDGETARY BASIS), JULY 1	\$ 3,965	\$ 3,965	
ADD:			
PRIOR YEAR ENCUMBRANCES LIQUIDATED			
ADJUSTED FUND BALANCES(BUDGETARY BASIS), JULY 1	3,965	3,965	
REVENUES:			
TAXES			
LICENSES, FINES, FEES, AND PERMITS	1,739	2,016	\$ 277
INTEREST ON INVESTMENTS	120	109	(11)
FEDERAL			
DEPARTMENTAL SERVICES			
OTHER			
OTHER FINANCING SOURCES-TRANSFERS IN			
TOTAL SOURCES OF FINANCIAL RESOURCES	5,824	6,090	266
USES OF FINANCIAL RESOURCES:			
EXPENDITURES AND ENCUMBRANCES:			
TREASURER			
COMMISSIONS			
CORRECTION			
SAFETY			
AGRICULTURE	2,214	2,137	77
ENVIRONMENT AND CONSERVATION			
WILDLIFE RESOURCES			
ECONOMIC AND COMMUNITY DEVELOPMENT			
COMMERCE AND INSURANCE			
OTHER FINANCING USES-TRANSFERS OUT			
TOTAL USES OF FINANCIAL RESOURCES	2,214	2,137	77
FUND BALANCES(BUDGETARY BASIS), JUNE 30	\$ 3,610	\$ 3,953	\$ 343

(continued on next page)

TENNESSEE REGULATORY AUTHORITY			SMALL AND MINORITY TELECOMMUNICATIONS		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 4,018	\$ 4,018		\$ 11,098	\$ 11,098	
4,018	4,018		11,098	11,098	
7,400	6,170	\$ (1,230)		292	\$ 292
283	291	8			
42	4	(38)			
11,743	10,483	(1,260)	11,098	11,390	292
7,739	6,697	1,042			
			80	80	
7,739	6,697	1,042	80	80	
\$ 4,004	\$ 3,786	\$ (218)	\$ 11,018	\$ 11,310	\$ 292



STATE OF TENNESSEE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL(BUDGETARY BASIS)  
 ALL NONMAJOR BUDGETED SPECIAL REVENUE FUNDS (continued)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	SEX OFFENDER TREATMENT PROGRAM		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
SOURCES OF FINANCIAL RESOURCES:			
FUND BALANCES(BUDGETARY BASIS), JULY 1	\$ 205	\$ 205	
ADD:			
PRIOR YEAR ENCUMBRANCES LIQUIDATED			
ADJUSTED FUND BALANCES(BUDGETARY BASIS), JULY 1	205	205	
REVENUES:			
TAXES		112	\$ 112
LICENSES, FINES, FEES, AND PERMITS			
INTEREST ON INVESTMENTS			
FEDERAL			
DEPARTMENTAL SERVICES		23	23
OTHER			
OTHER FINANCING SOURCES-TRANSFERS IN			
TOTAL SOURCES OF FINANCIAL RESOURCES	205	340	135
USES OF FINANCIAL RESOURCES:			
EXPENDITURES AND ENCUMBRANCES:			
TREASURER			
COMMISSIONS			
CORRECTION	110	110	
SAFETY			
AGRICULTURE			
ENVIRONMENT AND CONSERVATION			
WILDLIFE RESOURCES			
ECONOMIC AND COMMUNITY DEVELOPMENT			
COMMERCE AND INSURANCE			
OTHER FINANCING USES-TRANSFERS OUT			
TOTAL USES OF FINANCIAL RESOURCES	110	110	
FUND BALANCES(BUDGETARY BASIS), JUNE 30	\$ 95	\$ 230	\$ 135

TOTAL NONMAJOR SPECIAL REVENUE FUNDS		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE- FAVORABLE (UNFAVORABLE)
\$ 251,703	\$ 251,703	
<u>715</u>	<u>715</u>	
252,418	252,418	
43,188	76,283	\$ 33,095
81,083	78,536	(2,547)
220	6,948	6,728
20,933	18,643	(2,290)
20,918	14,851	(6,067)
	608	608
<u>2,573</u>	<u>2,573</u>	
<u>421,333</u>	<u>450,860</u>	<u>29,527</u>
12,537	12,502	35
7,739	6,697	1,042
110	110	
1,152	926	226
5,781	5,676	105
90,980	76,354	14,626
80,315	64,738	15,577
19,202	9,697	9,505
14,060	13,966	94
<u>88,858</u>	<u>88,858</u>	
<u>320,734</u>	<u>279,524</u>	<u>41,210</u>
\$ <u>100,599</u>	\$ <u>171,336</u>	\$ <u>70,737</u>



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## PERMANENT FUNDS

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Chairs of Excellence Fund – This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Academic Scholars Fund – This fund is used to account for the academic scholars program administered by TSAC. An endowment was established in 1986 to provide scholarships to superior students from the interest earnings.

Other – Various smaller funds that are legally restricted to the extent that only earnings, not principal can be spent.

STATE OF TENNESSEE  
COMBINING BALANCE SHEET  
PERMANENT FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	CHAIRS OF EXCELLENCE	ACADEMIC SCHOLARS	OTHER	TOTAL PERMANENT FUNDS
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	\$ 5,235	\$ 4	\$ 17,092	\$ 22,331
INVESTMENTS	196,090	3,320		199,410
RECEIVABLES:				
TAXES			25	25
INTEREST	1,476			1,476
OTHER			5	5
DUE FROM COMPONENT UNITS	1,166			1,166
 TOTAL ASSETS	 \$ 203,967	 \$ 3,324	 \$ 17,122	 \$ 224,413
<b>LIABILITIES AND FUND BALANCES</b>				
LIABILITIES:				
DUE TO COMPONENT UNITS	\$ 2,356			\$ 2,356
 TOTAL LIABILITIES	 2,356			 2,356
 FUND BALANCES:				
RESERVED FOR:				
NONEXPENDABLE	190,001	\$ 2,705	\$ 15,744	208,450
EXPENDABLE	11,610	619	1,378	13,607
 TOTAL FUND BALANCES	 201,611	 3,324	 17,122	 222,057
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 203,967	 \$ 3,324	 \$ 17,122	 \$ 224,413

STATE OF TENNESSEE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 PERMANENT FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	CHAIRS OF EXCELLENCE	ACADEMIC SCHOLARS	OTHER	TOTAL PERMANENT FUNDS
<b>REVENUES</b>				
LICENSES, FINES, FEES, AND PERMITS			\$ 1,523	\$ 1,523
INTEREST ON INVESTMENTS	\$ (10,074)	\$ 208	416	(9,450)
OTHER			73	73
TOTAL REVENUES	(10,074)	208	2,012	(7,854)
<b>EXPENDITURES</b>				
EDUCATION	7,421	566		7,987
RECREATION AND RESOURCES DEVELOPMENT			144	144
TOTAL EXPENDITURES	7,421	566	144	8,131
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,495)	(358)	1,868	(15,985)
<b>OTHER FINANCING SOURCES(USES)</b>				
TRANSFERS IN		252		252
TOTAL OTHER FINANCING SOURCES(USES)		252		252
NET CHANGE IN FUND BALANCES	(17,495)	(106)	1,868	(15,733)
FUND BALANCES, JULY 1	219,106	3,430	15,254	237,790
FUND BALANCES, JUNE 30	\$ 201,611	\$ 3,324	\$ 17,122	\$ 222,057



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# **GENERAL FUND SUPPLEMENTARY SCHEDULES**

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STATE OF TENNESSEE  
COMPARATIVE SCHEDULES OF REVENUES BY SOURCE  
GENERAL FUND  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

(Expressed in Thousands)

REVENUES BY SOURCE	FOR THE YEAR ENDED	
	JUNE 30, 2002	JUNE 30, 2001
TAXES:		
SALES AND USE	\$ 1,479,950	\$ 1,464,011
GASOLINE	9,084	9,918
MOTOR FUEL	2,866	3,191
GASOLINE INSPECTION	647	646
TOTAL FUEL TAXES	12,597	13,755
FRANCHISE	410,590	449,900
EXCISE	440,678	535,781
GROSS RECEIPTS	227,339	226,778
BEER	13,416	13,530
ALCOHOLIC BEVERAGE	30,032	30,043
MIXED DRINK	18,891	17,634
TOBACCO	622	588
BUSINESS	21,115	21,509
INSURANCE COMPANIES PREMIUM	265,473	280,561
RETALIATORY	4,944	6,214
WORKERS COMPENSATION PREMIUM	38,402	36,225
MEDICAID PROVIDER	100,976	115,910
OTHER	1,111	6,930
TOTAL BUSINESS TAXES	1,573,589	1,741,603
INCOME	171,072	199,397
PRIVILEGE	177,390	160,766
INHERITANCE AND ESTATE	104,481	89,676
OTHER	556	603
TOTAL OTHER TAXES	453,499	450,442
TOTAL TAXES	3,519,635	3,669,811
LICENSES, FINES, FEES AND PERMITS:		
MOTOR VEHICLE REGISTRATION	36,133	34,227
MOTOR VEHICLE TITLE REGISTRATION FEES	8,128	8,120
DRIVERS LICENSES	22,175	21,052
ARRESTS, FINES AND FEES	9,166	8,945
REGULATORY BOARD FEES	25,757	26,330
OTHER	50,724	36,404
TOTAL LICENSES, FINES, FEES AND PERMITS	152,083	135,078
INTEREST ON INVESTMENTS	37,915	77,488
FEDERAL-EARNED BY STATE DEPARTMENTS	5,603,008	5,159,378
DEPARTMENTAL SERVICES:		
CHARGES TO THE PUBLIC	346,308	320,417
INTERDEPARTMENTAL CHARGES	900,011	840,707
CHARGES TO CITIES, COUNTIES, ETC.	266,440	523,494
TOTAL DEPARTMENTAL SERVICES	1,512,759	1,684,618
OTHER	434,014	344,334
TOTAL REVENUES BY SOURCE	\$ 11,259,414	\$ 11,070,707

STATE OF TENNESSEE  
COMPARATIVE SCHEDULES OF EXPENDITURES BY FUNCTION AND DEPARTMENT  
GENERAL FUND  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

(Expressed in Thousands)

EXPENDITURES BY FUNCTION AND DEPARTMENT	FOR THE YEAR ENDED	
	JUNE 30, 2002	JUNE 30, 2001
GENERAL GOVERNMENT:		
LEGISLATIVE	\$ 25,711	\$ 25,031
SECRETARY OF STATE	27,621	27,575
COMPTROLLER	48,457	47,367
TREASURER	27,934	23,976
GOVERNOR	3,585	3,613
COMMISSIONS	56,297	49,957
FINANCE AND ADMINISTRATION	52,592	55,897
PERSONNEL	9,588	9,215
GENERAL SERVICES	16,825	16,115
REVENUE	58,282	58,637
MISCELLANEOUS APPROPRIATIONS	12,362	15,607
TOTAL GENERAL GOVERNMENT	339,254	332,990
HEALTH AND SOCIAL SERVICES:		
VETERANS AFFAIRS	2,744	2,704
LABOR AND WORKFORCE DEVELOPMENT	169,621	163,280
TENNCARE	6,107,073	5,488,798
MENTAL HEALTH AND MENTAL RETARDATION	709,171	632,831
HEALTH	372,563	352,096
HUMAN SERVICES	1,396,714	1,585,515
CHILDREN'S SERVICES	492,140	416,553
TOTAL HEALTH AND SOCIAL SERVICES	9,250,026	8,641,777
LAW, JUSTICE AND PUBLIC SAFETY:		
JUDICIAL	185,200	178,788
CORRECTION	450,532	443,917
PROBATION AND PAROLES	52,925	52,187
MILITARY	42,441	50,246
BUREAU OF CRIMINAL INVESTIGATION	41,819	37,452
SAFETY	136,563	131,096
TOTAL LAW, JUSTICE AND PUBLIC SAFETY	909,480	893,686
RECREATION AND RESOURCE DEVELOPMENT:		
AGRICULTURE	57,468	44,695
TOURIST DEVELOPMENT	12,126	11,986
ENVIRONMENT AND CONSERVATION	142,987	145,032
ECONOMIC AND COMMUNITY DEVELOPMENT	72,421	65,747
TOTAL RECREATION AND RESOURCE DEVELOPMENT	285,002	267,460
REGULATION OF BUSINESS AND PROFESSIONS:		
COMMERCE AND INSURANCE	42,798	41,623
FINANCIAL INSTITUTIONS	8,273	7,754
TOTAL REGULATION OF BUSINESS AND PROFESSIONS	51,071	49,377
STATE SHARED TAXES PAID TO LOCAL GOVERNMENTS	416,369	406,312
TOTAL EXPENDITURES BY FUNCTION AND DEPARTMENT	\$ 11,251,202	\$ 10,591,602



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# NONMAJOR ENTERPRISE FUNDS

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**The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.**

State Loan Program - Operated since the early 1970's through the Department of Environment and Conservation, this program has provided financial assistance to local governments and utility districts for the construction of sewage treatment, solid waste recovery and waterworks facilities. In order for these borrowing entities to generate funds necessary to repay the loans, the imposition of a user's fee by the local systems was authorized. In order to finance this program, general obligation bonds were sold which, although remaining full faith and credit obligations of the state, are being retired from resources of this fund. Future financing for this program will be generated from the sale of revenue bonds or notes by the Local Development Authority.

Energy Loan Program - Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance - Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance - Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan - Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity - This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Property Utilization, a division of the Department of General Services - This agency receives surplus federal property and redistributes it to civil defense units, health and educational institutions and other eligible donees within the state. The agency collects fees from the donees to offset operating costs. In addition, this agency handles surplus property by the various State agencies.

Medicare Supplement Insurance - Established in January 2001, this fund is used to account for revenues received and claims paid on behalf of retirees who are eligible for medicare coverage and elect coverage under the Medicare Supplement Insurance Plan.

STATE OF TENNESSEE  
COMBINING STATEMENT OF NET ASSETS  
NONMAJOR ENTERPRISE FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	STATE LOAN PROGRAM	ENERGY LOAN PROGRAM	TEACHER GROUP INSURANCE	LOCAL GOVERNMENT GROUP INSURANCE
<b>ASSETS</b>				
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS	\$ 3,625	\$ 17,112	\$ 12,268	\$ 911
RECEIVABLES:				
ACCOUNTS RECEIVABLE			247	317
INTEREST	1			
LOANS RECEIVABLE-CURRENT	2,845	1,867		
DUE FROM COMPONENT UNITS				
INVENTORY				
	<u>6,471</u>	<u>18,979</u>	<u>12,515</u>	<u>1,228</u>
TOTAL CURRENT ASSETS				
	<u>6,471</u>	<u>18,979</u>	<u>12,515</u>	<u>1,228</u>
NONCURRENT ASSETS:				
DEFERRED CHARGES	81			
LOANS RECEIVABLE	<u>11,427</u>	<u>6,010</u>		
	<u>11,508</u>	<u>6,010</u>		
TOTAL NONCURRENT ASSETS				
	<u>11,508</u>	<u>6,010</u>		
TOTAL ASSETS	<u>17,979</u>	<u>24,989</u>	<u>12,515</u>	<u>1,228</u>
	<u>17,979</u>	<u>24,989</u>	<u>12,515</u>	<u>1,228</u>
<b>LIABILITIES</b>				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUALS	609	100	23,943	11,807
DUE TO OTHER FUNDS				
BONDS PAYABLE-CURRENT	2,845			
DEFERRED REVENUE			622	95
	<u>3,454</u>	<u>100</u>	<u>24,565</u>	<u>11,902</u>
TOTAL CURRENT LIABILITIES				
	<u>3,454</u>	<u>100</u>	<u>24,565</u>	<u>11,902</u>
NONCURRENT LIABILITIES:				
BONDS PAYABLE, net	11,079			
OTHER NONCURRENT LIABILITIES				
	<u>11,079</u>			
TOTAL NONCURRENT LIABILITIES				
	<u>11,079</u>			
TOTAL LIABILITIES	<u>14,533</u>	<u>100</u>	<u>24,565</u>	<u>11,902</u>
	<u>14,533</u>	<u>100</u>	<u>24,565</u>	<u>11,902</u>
<b>NET ASSETS</b>				
RESTRICTED				
UNRESTRICTED (DEFICIT)	<u>3,446</u>	<u>24,889</u>	<u>(12,050)</u>	<u>(10,674)</u>
	<u>3,446</u>	<u>24,889</u>	<u>(12,050)</u>	<u>(10,674)</u>
TOTAL NET ASSETS	<u>\$ 3,446</u>	<u>\$ 24,889</u>	<u>\$ (12,050)</u>	<u>\$ (10,674)</u>
	<u>\$ 3,446</u>	<u>\$ 24,889</u>	<u>\$ (12,050)</u>	<u>\$ (10,674)</u>

<u>DRINKING WATER</u>	<u>GRAIN INDEMNITY</u>	<u>PROPERTY UTILIZATION</u>	<u>MEDICARE SUPPLEMENT INSURANCE</u>	<u>TOTAL NONMAJOR ENTERPRISE FUNDS</u>
\$ 11,124	\$ 3,683	\$ 419	\$ 25,943	\$ 75,085
		56		620
3				4
276				4,988
		8		8
		3		3
<u>11,403</u>	<u>3,683</u>	<u>486</u>	<u>25,943</u>	<u>80,708</u>
				81
<u>13,929</u>				<u>31,366</u>
<u>13,929</u>				<u>31,447</u>
<u>25,332</u>	<u>3,683</u>	<u>486</u>	<u>25,943</u>	<u>112,155</u>
3		93	4,867	41,422
		4		4
				2,845
			417	1,134
<u>3</u>		<u>97</u>	<u>5,284</u>	<u>45,405</u>
				11,079
		<u>39</u>		<u>39</u>
		<u>39</u>		<u>11,118</u>
<u>3</u>		<u>136</u>	<u>5,284</u>	<u>56,523</u>
25,329				25,329
<u>25,329</u>	<u>3,683</u>	<u>350</u>	<u>20,659</u>	<u>30,303</u>
\$ <u><u>25,329</u></u>	\$ <u><u>3,683</u></u>	\$ <u><u>350</u></u>	\$ <u><u>20,659</u></u>	\$ <u><u>55,632</u></u>

STATE OF TENNESSEE  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	STATE LOAN PROGRAM	ENERGY LOAN PROGRAM	TEACHER GROUP INSURANCE	LOCAL GOVERNMENT GROUP INSURANCE
<b>OPERATING REVENUES</b>				
CHARGES FOR SERVICES	\$ 623	\$ 192		
INVESTMENT INCOME	114	440		
PREMIUMS			\$ 203,362	\$ 91,104
OTHER			8	2
<b>TOTAL OPERATING REVENUES</b>	<b>737</b>	<b>632</b>	<b>203,370</b>	<b>91,106</b>
<b>OPERATING EXPENSES</b>				
PERSONAL SERVICES				
CONTRACTUAL SERVICES	9		17,932	8,730
MATERIALS AND SUPPLIES				
RENTALS AND INSURANCE				
INTEREST	785			
DEPRECIATION AND AMORTIZATION	10			
BENEFITS			190,959	94,996
OTHER	61	302	1,448	666
<b>TOTAL OPERATING EXPENSES</b>	<b>865</b>	<b>302</b>	<b>210,339</b>	<b>104,392</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(128)</b>	<b>330</b>	<b>(6,969)</b>	<b>(13,286)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
OPERATING GRANTS	(25)	910		
INTEREST INCOME			307	193
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(25)</b>	<b>910</b>	<b>307</b>	<b>193</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(153)</b>	<b>1,240</b>	<b>(6,662)</b>	<b>(13,093)</b>
<b>TRANSFERS IN</b>			<b>4,639</b>	
<b>CHANGE IN NET ASSETS</b>	<b>(153)</b>	<b>1,240</b>	<b>(2,023)</b>	<b>(13,093)</b>
<b>NET ASSETS, JULY 1</b>	<b>3,599</b>	<b>23,649</b>	<b>(10,027)</b>	<b>2,419</b>
<b>NET ASSETS, JUNE 30</b>	<b>\$ 3,446</b>	<b>\$ 24,889</b>	<b>\$ (12,050)</b>	<b>\$ (10,674)</b>

DRINKING WATER	GRAIN INDEMNITY	PROPERTY UTILIZATION	MEDICARE SUPPLEMENT INSURANCE	TOTAL NONMAJOR ENTERPRISE FUNDS
\$ 229		\$ 1,219		\$ 2,263
266				820
			\$ 43,619	338,085
				10
495		1,219	43,619	341,178
		723		723
459		346	4,882	32,358
		89		89
		152		152
				785
				10
			33,821	319,776
\$ 95	95	63	5	2,640
459	95	1,373	38,708	356,533
36	(95)	(154)	4,911	(15,355)
6,876				7,761
	97		396	993
6,876	97		396	8,754
6,912	2	(154)	5,307	(6,601)
1,629		500	5,263	12,031
8,541	2	346	10,570	5,430
16,788	3,681	4	10,089	50,202
\$ 25,329	\$ 3,683	\$ 350	\$ 20,659	\$ 55,632



STATE OF TENNESSEE  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	STATE LOAN PROGRAM	ENERGY LOAN PROGRAM	TEACHER GROUP INSURANCE	LOCAL GOVERNMENT GROUP INSURANCE
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
RECEIPTS FROM CUSTOMERS AND USERS			\$ 204,395	\$ 91,364
RECEIPTS FROM INTERFUND SERVICES PROVIDED				
PAYMENTS TO SUPPLIERS			(210,414)	(101,645)
PAYMENTS TO EMPLOYEES				
PAYMENTS FOR INTERFUND SERVICES USED	\$ (9)		(1,448)	(666)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	(9)		(7,467)	(10,947)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
OPERATING GRANTS RECEIVED		\$ 910		
NEGATIVE CASH BALANCE IMPLICITLY REPAID				
TRANSFERS IN			4,639	
PAYMENTS TO COMPONENT UNITS	(25)			
PRINCIPAL PAYMENTS	(3,280)			
INTEREST PAID	(848)			
SUBSIDY TO BORROWERS	(148)			
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(4,301)	910	4,639	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
LOANS ISSUED		(2,641)		
COLLECTION OF LOAN PRINCIPAL	3,439	1,332		
INTEREST RECEIVED	757	632	307	193
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	4,196	(677)	307	193
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(114)	233	(2,521)	(10,754)
CASH AND CASH EQUIVALENTS, JULY 1	3,739	16,879	14,789	11,665
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 3,625	\$ 17,112	\$ 12,268	\$ 911
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
OPERATING INCOME (LOSS)	\$ (128)	\$ 330	\$ (6,969)	\$ (13,286)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
DEPRECIATION AND AMORTIZATION	10			
PROVISION FOR UNCOLLECTIBLE ACCOUNTS		302		
INVESTMENT INCOME	(114)	(440)		
CHARGES FOR SERVICES	(623)	(192)		
INTEREST EXPENSE	785			
SUBSIDY TO BORROWERS	61			
CHANGES IN ASSETS AND LIABILITIES:				
(INCREASE)DECREASE IN ACCOUNTS RECEIVABLE			(148)	(237)
(INCREASE)DECREASE IN DUE FROM COMPONENT UNITS				
(INCREASE)DECREASE IN INVENTORIES				
INCREASE(DECREASE) IN ACCOUNTS PAYABLE			(491)	2,550
INCREASE(DECREASE) IN DUE TO OTHER FUNDS				
INCREASE(DECREASE) IN DEFERRED REVENUE			141	26
TOTAL ADJUSTMENTS	119	(330)	(498)	2,339
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (9)	\$ -	\$ (7,467)	\$ (10,947)

<u>DRINKING WATER</u>	<u>GRAIN INDEMNITY</u>	<u>PROPERTY UTILIZATION</u>	<u>MEDICARE SUPPLEMENT INSURANCE</u>	<u>TOTAL NONMAJOR ENTERPRISE FUNDS</u>
		\$ 1,141	\$ 43,800	\$ 340,700
		194		194
\$ (111)	\$ (95)	(160)	(34,863)	(347,288)
(348)		(752)		(752)
		(433)	(6)	(2,910)
(459)	(95)	(10)	8,931	(10,056)
6,876				7,786
		(71)		(71)
1,629		500	5,263	12,031
				(25)
				(3,280)
				(848)
				(148)
8,505		429	5,263	15,445
(8,160)				(10,801)
171				4,942
491	97		396	2,873
(7,498)	97		396	(2,986)
548	2	419	14,590	2,403
10,576	3,681	-	11,353	72,682
\$ 11,124	\$ 3,683	\$ 419	\$ 25,943	\$ 75,085
\$ 36	\$ (95)	\$ (154)	\$ 4,911	\$ (15,355)
				10
				302
(266)				(820)
(229)				(1,044)
				785
				61
		119		(266)
		(4)		(4)
		13		13
		17	3,839	5,915
		(1)		(1)
			181	348
(495)		144	4,020	5,299
\$ (459)	\$ (95)	\$ (10)	\$ 8,931	\$ (10,056)



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# INTERNAL SERVICE FUNDS

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**Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:**

Office for Information Resources, a division of the Department of Finance and Administration - This division functions as the data and voice service bureau for state government.

Claims Award - This fund was created in 1985 to pay awards for claims made against the state once validity of the claims has been determined by the Tennessee Claims Commission.

Motor Vehicle Management, a division of the Department of General Services - This division is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing, a division of the Department of General Services - This agency operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund - This fund was created in 1989 to provide for the maintenance, repair and total housing needs of state government. This fund was phased in. The first year it included only downtown Nashville office space. In fiscal year 90-91, the fund expanded to include all office and warehouse space in Davidson, Knox, Madison, Shelby, Washington, Hamilton, and Sullivan Counties. In fiscal year 91-92, the fund encompassed all office and warehouse space in the State, except institutional space.

Employee Group Insurance Fund - Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. Prior to 1978, medical insurance was provided by a private carrier. Group life and accident insurance premiums paid to a private insurance company are also recorded in this fund.

Food Services, a division of the Department of General Services - This division is responsible for the preparation and distribution of certain food to the various state institutions. This consists of food that is cooked and then immediately frozen and is then reheated at the institution.

Postal Services, a division of the Department of General Services - This agency processes and distributes incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Capitol Print Shop, a division of the Office of the Comptroller - This facility is responsible for providing printing, mailing and other office services for the state agencies located in the Capitol.

Purchasing, a division of the Department of General Services - This agency is responsible for the procurement of supplies, equipment and certain specialized services.

Central Stores, a division of the Department of General Services - This agency is responsible for the purchasing and distribution of office supplies to the Department of Health, Labor and Workforce Development, Human Services, and General Services.

Records Management, a division of the Department of General Services - This division is responsible for the retention and disposal of official records.

Division of Accounts, a division of the Department of Finance and Administration - This division is responsible for the centralized accounting function for the state.

TRICOR - Tennessee Rehabilitative Initiative in Correction manages correctional industry, agriculture, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not-for-profit organizations.

STATE OF TENNESSEE  
COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	OFFICE FOR INFORMATION RESOURCES	CLAIMS AWARD	MOTOR VEHICLE MANAGEMENT	GENERAL SERVICES PRINTING	FACILITIES REVOLVING FUND	EMPLOYEE GROUP INSURANCE
<b>ASSETS</b>						
CURRENT ASSETS:						
CASH AND CASH EQUIVALENTS	\$ 72,302	\$ 72,722	\$ 7,051	\$ 132	\$ 29,546	\$ 47,563
CASH ON DEPOSIT WITH FISCAL AGENT					1,350	
ACCOUNTS RECEIVABLE	631		491	3	303	2,026
DUE FROM OTHER FUNDS	266					
DUE FROM COMPONENT UNITS	142		1			
INVENTORIES, at cost	920		11	82		
PREPAID EXPENSES	216					
TOTAL CURRENT ASSETS	74,477	72,722	7,554	217	31,199	49,589
NONCURRENT ASSETS:						
RESTRICTED CASH AND CASH EQUIVALENTS					516	
DEFERRED CHARGE					493	
LEASE RECEIVABLE					4,229	
ADVANCES TO OTHER FUNDS	6,511					
CAPITAL ASSETS:						
LAND, at cost					54,169	
STRUCTURES AND IMPROVEMENTS, at cost					393,592	
MACHINERY AND EQUIPMENT, at cost	80,396		125,312	1,572	398	
LESS-ACCUMULATED DEPRECIATION	(64,917)		(65,717)	(1,189)	(145,329)	
CONSTRUCTION IN PROGRESS					964	
TOTAL CAPITAL ASSETS, net of accumulated depreciation	15,479		59,595	383	303,794	
TOTAL NONCURRENT ASSETS	21,990		59,595	383	309,032	
TOTAL ASSETS	96,467	72,722	67,149	600	340,231	49,589
<b>LIABILITIES</b>						
CURRENT LIABILITIES:						
ACCOUNTS PAYABLE AND ACCRUALS:						
ACCOUNTS PAYABLE	11,186	933	1,939	67	4,880	46,224
ACCRUED PAYROLL AND RELATED DEDUCTIONS	1,653		103	140		
DUE TO OTHER FUNDS	150		9	13		
LEASE OBLIGATIONS PAYABLE						
BONDS PAYABLE-CURRENT					13,007	
DEFERRED REVENUE	705	4				22,523
OTHER		27,983				
TOTAL CURRENT LIABILITIES	13,694	28,920	2,051	220	17,887	68,747
NONCURRENT LIABILITIES:						
LEASE OBLIGATIONS PAYABLE					4,131	
COMMERCIAL PAPER PAYABLE					147,174	
BONDS PAYABLE, net						
OTHER NONCURRENT LIABILITIES	937	52,927	62	80		
TOTAL NONCURRENT LIABILITIES	937	52,927	62	80	151,305	
TOTAL LIABILITIES	14,631	81,847	2,113	300	169,192	68,747
<b>NET ASSETS</b>						
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT						
RESTRICTED FOR DEBT SERVICE	15,479		59,595	383	139,482	
UNRESTRICTED (DEFICIT)	66,357	(9,125)	5,441	(83)	31,333	(19,158)
TOTAL NET ASSETS	\$ 81,836	\$ (9,125)	\$ 65,036	\$ 300	\$ 171,039	\$ (19,158)

FOOD SERVICES	POSTAL SERVICES	CAPITOL PRINT SHOP	PURCHASING	CENTRAL STORES	RECORDS MANAGEMENT	DIVISION OF ACCOUNTS	TRICOR	TOTAL INTERNAL SERVICE FUNDS
\$ 1,204		\$ 509	\$ 395		\$ 148	\$ 3,997	\$ 9,897	\$ 245,466
	\$ 1						518	1,350
				\$ 2				3,973
				704				266
	484	37					2,924	145
	47	23						5,162
								286
1,204	532	569	395	706	148	3,997	13,339	256,648
								516
								493
								4,229
								6,511
215								54,384
15,752								409,344
3,686	2,310	728		7	328	46	4,628	219,411
(4,475)	(2,041)	(507)		(7)	(193)	(9)	(2,950)	(287,334)
								964
15,178	269	221		-	135	37	1,678	396,769
15,178	269	221			135	37	1,678	408,518
16,382	801	790	395	706	283	4,034	15,017	665,166
557	11	30	16	179	8	1	834	66,865
12	138	23	126	41	49	263	467	3,015
1	52		13	329	5	32	40	644
					28			28
								13,007
								23,232
								27,983
570	201	53	155	549	90	296	1,341	134,774
					61			61
								4,131
								147,174
8	85	21	68	19	26	138	289	54,660
8	85	21	68	19	87	138	289	206,026
578	286	74	223	568	177	434	1,630	340,800
15,178	269	221			46	37	1,678	232,368
								224
626	246	495	172	138	60	3,563	11,709	91,774
\$ 15,804	\$ 515	\$ 716	\$ 172	\$ 138	\$ 106	\$ 3,600	\$ 13,387	\$ 324,366

STATE OF TENNESSEE  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	OFFICE FOR INFORMATION RESOURCES	CLAIMS AWARD	MOTOR VEHICLE MANAGEMENT	GENERAL SERVICES PRINTING	FACILITIES REVOLVING FUND	EMPLOYEE GROUP INSURANCE
<b>OPERATING REVENUES</b>						
CHARGES FOR SERVICES	\$ 141,467	\$ 30,382	\$ 25,851	\$ 3,681	\$ 99,154	
PREMIUMS						\$ 379,904
OTHER						22
TOTAL OPERATING REVENUES	<u>141,467</u>	<u>30,382</u>	<u>25,851</u>	<u>3,681</u>	<u>99,154</u>	<u>379,926</u>
<b>OPERATING EXPENSES</b>						
PERSONAL SERVICES	19,256		1,298	1,900		
CONTRACTUAL SERVICES	104,986	7,944	1,628	799	50,272	33,979
MATERIALS AND SUPPLIES	8,250		11,605	910	4,927	
RENTALS AND INSURANCE	4,224		315	368	20,827	6,290
DEPRECIATION AND AMORTIZATION	7,935		10,862	104	8,291	
BENEFITS		39,188				365,060
OTHER	<u>879</u>	<u></u>	<u>524</u>	<u>20</u>	<u>396</u>	<u>3,055</u>
TOTAL OPERATING EXPENSES	<u>145,530</u>	<u>47,132</u>	<u>26,232</u>	<u>4,101</u>	<u>84,713</u>	<u>408,384</u>
OPERATING INCOME (LOSS)	<u>(4,063)</u>	<u>(16,750)</u>	<u>(381)</u>	<u>(420)</u>	<u>14,441</u>	<u>(28,458)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
TAXES		3				
INTEREST INCOME		1,807			869	1,392
INTEREST EXPENSE		<u></u>			<u>(12,528)</u>	<u></u>
TOTAL NONOPERATING REVENUES (EXPENSES)		<u>1,810</u>			<u>(11,659)</u>	<u>1,392</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFER	(4,063)	(14,940)	(381)	(420)	2,782	(27,066)
CAPITAL CONTRIBUTIONS			1		208	
TRANSFERS IN	3,105		3,222	200	368	450
TRANSFERS OUT	<u>(2,450)</u>	<u></u>	<u>(20)</u>	<u></u>	<u></u>	<u></u>
CHANGE IN NET ASSETS	(3,408)	(14,940)	2,822	(220)	3,358	(26,616)
NET ASSETS, JULY 1	<u>85,244</u>	<u>5,815</u>	<u>62,214</u>	<u>520</u>	<u>167,681</u>	<u>7,458</u>
NET ASSETS, JUNE 30	\$ <u>81,836</u>	\$ <u>(9,125)</u>	\$ <u>65,036</u>	\$ <u>300</u>	\$ <u>171,039</u>	\$ <u>(19,158)</u>

FOOD SERVICES	POSTAL SERVICES	CAPITOL PRINT SHOP	PURCHASING	CENTRAL STORES	RECORDS MANAGEMENT	DIVISION OF ACCOUNTS	TRICOR	TOTAL INTERNAL SERVICE FUNDS
\$ 4,062	\$ 15,107	\$ 877	\$ 3,580	\$ 5,902	\$ 1,320	\$ 10,191	\$ 20,457	\$ 362,031
								379,904
								22
<u>4,062</u>	<u>15,107</u>	<u>877</u>	<u>3,580</u>	<u>5,902</u>	<u>1,320</u>	<u>10,191</u>	<u>20,457</u>	<u>741,957</u>
132	1,835	490	1,844	723	751	3,764	6,506	38,499
3,938	704	290	1,625	789	311	5,372	2,672	215,309
6	11,799	127	30	4,635	39	69	9,586	51,983
1	794	27	276	176	197	363	644	34,502
641	106	76			23	7	261	28,306
								404,248
<u>165</u>	<u>32</u>		<u>25</u>	<u>40</u>	<u>7</u>	<u>4</u>	<u>384</u>	<u>5,531</u>
<u>4,883</u>	<u>15,270</u>	<u>1,010</u>	<u>3,800</u>	<u>6,363</u>	<u>1,328</u>	<u>9,579</u>	<u>20,053</u>	<u>778,378</u>
<u>(821)</u>	<u>(163)</u>	<u>(133)</u>	<u>(220)</u>	<u>(461)</u>	<u>(8)</u>	<u>612</u>	<u>404</u>	<u>(36,421)</u>
								3
					(3)			4,068
								(12,531)
					(3)			(8,460)
(821)	(163)	(133)	(220)	(461)	(11)	612	404	(44,881)
	3							212
			22					7,367
								(2,470)
(821)	(160)	(133)	(198)	(461)	(11)	612	404	(39,772)
<u>16,625</u>	<u>675</u>	<u>849</u>	<u>370</u>	<u>599</u>	<u>117</u>	<u>2,988</u>	<u>12,983</u>	<u>364,138</u>
\$ <u>15,804</u>	\$ <u>515</u>	\$ <u>716</u>	\$ <u>172</u>	\$ <u>138</u>	\$ <u>106</u>	\$ <u>3,600</u>	\$ <u>13,387</u>	\$ <u>324,366</u>



STATE OF TENNESSEE  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	OFFICE FOR INFORMATION RESOURCES	CLAIMS AWARD	MOTOR VEHICLE MANAGEMENT	GENERAL SERVICES PRINTING	FACILITIES REVOLVING FUND	EMPLOYEE GROUP INSURANCE
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
RECEIPTS FROM CUSTOMERS AND USERS	\$ 3,980	\$ 7,912	\$ 507	\$ 59	\$ 1,305	\$ 153,245
RECEIPTS FROM INTERFUND SERVICES PROVIDED	140,865	22,471	25,049	3,620	97,850	242,998
PAYMENTS TO SUPPLIERS	(112,190)	(30,280)	(8,515)	(1,359)	(59,814)	(415,799)
PAYMENTS TO EMPLOYEES	(19,119)		(1,297)	(1,884)		
PAYMENTS FOR INTERFUND SERVICES USED	(10,193)	(5,391)	(4,769)	(724)	(15,796)	(3,055)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>3,343</u>	<u>(5,288)</u>	<u>10,975</u>	<u>(288)</u>	<u>23,545</u>	<u>(22,611)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
NEGATIVE CASH BALANCE IMPLICITLY FINANCED						
TRANSFERS IN	3,105		3,222	200	368	450
TRANSFERS OUT	(2,450)		(20)			
TAX REVENUES RECEIVED		3				
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>655</u>	<u>3</u>	<u>3,202</u>	<u>200</u>	<u>368</u>	<u>450</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
PURCHASE OF CAPITAL ASSETS	(4,720)		(13,429)	(9)	(6,204)	
BOND AND COMMERCIAL PAPER PROCEEDS					26,063	
PROCEEDS FROM SALE OF CAPITAL ASSETS			1,781			
BOND ISSUANCE COST					(83)	
PRINCIPAL PAYMENTS					(33,269)	
INTEREST PAID					(5,530)	
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,720)</u>		<u>(11,648)</u>	<u>(9)</u>	<u>(19,023)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
INTEREST RECEIVED		1,807			869	1,392
NET CASH FROM (USED FOR) INVESTING ACTIVITIES		<u>1,807</u>			<u>869</u>	<u>1,392</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(722)	(3,478)	2,529	(97)	5,759	(20,769)
CASH AND CASH EQUIVALENTS, JULY 1	<u>73,024</u>	<u>76,200</u>	<u>4,522</u>	<u>229</u>	<u>25,653</u>	<u>68,332</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 72,302</u>	<u>\$ 72,722</u>	<u>\$ 7,051</u>	<u>\$ 132</u>	<u>\$ 31,412</u>	<u>\$ 47,563</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
OPERATING INCOME (LOSS)	\$ (4,063)	\$ (16,750)	\$ (381)	\$ (420)	\$ 14,441	\$ (28,458)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:						
DEPRECIATION AND AMORTIZATION	7,935		10,862	104	8,291	
LOSS ON DISPOSAL OF CAPITAL ASSETS	741		519		311	
BOND ISSUANCE COST					84	
CHANGES IN ASSETS AND LIABILITIES:						
(INCREASE)DECREASE IN ACCOUNTS RECEIVABLE	(454)		(317)	(2)		(1,820)
(INCREASE)DECREASE IN DUE FROM OTHER FUNDS	(265)					
(INCREASE)DECREASE IN DUE FROM COMPONENT UNITS	30		22			
(INCREASE)DECREASE IN INVENTORIES	291			36		
(INCREASE)DECREASE IN PREPAID EXPENSES	147					
(INCREASE)DECREASE IN ADVANCES TO OTHER FUNDS	4,853					
INCREASE(DECREASE) IN ACCOUNTS PAYABLE	(5,098)	11,461	269	(7)	418	2,869
INCREASE(DECREASE) IN DUE TO OTHER FUNDS	15		1	1		
INCREASE(DECREASE) IN DUE TO COMPONENT UNITS	(4)					
INCREASE(DECREASE) IN DEFERRED REVENUE	(785)	1				4,798
TOTAL ADJUSTMENTS	<u>7,406</u>	<u>11,462</u>	<u>11,356</u>	<u>132</u>	<u>9,104</u>	<u>5,847</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 3,343</u>	<u>\$ (5,288)</u>	<u>\$ 10,975</u>	<u>\$ (288)</u>	<u>\$ 23,545</u>	<u>\$ (22,611)</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>						
CONTRIBUTED CAPITAL ASSETS			\$ 1		\$ 208	
CAPITAL LEASE RECEIVABLE					4,531	
CAPITAL ASSET DISPOSED BY CAPITAL LEASE					(4,844)	
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			<u>\$ 1</u>		<u>\$ (105)</u>	

FOOD SERVICES	POSTAL SERVICES	CAPITOL PRINT SHOP	PURCHASING	CENTRAL STORES	RECORDS MANAGEMENT	DIVISION OF ACCOUNTS	TRICOR	TOTAL INTERNAL SERVICE FUNDS
\$ 59	\$ 136	\$ 9	\$ 18	\$ 45	\$ 15	\$ 311	\$ 4,210	\$ 171,811
4,006	14,971	868	3,561	5,857	1,305	9,887	16,109	589,417
(3,796)	(12,314)	(386)	(360)	(4,722)	(87)	(987)	(11,892)	(662,501)
(137)	(1,826)	(487)	(1,843)	(727)	(748)	(3,721)	(6,596)	(38,385)
(111)	(1,038)	(33)	(1,580)	(758)	(461)	(4,880)	(1,167)	(49,956)
<u>21</u>	<u>(71)</u>	<u>(29)</u>	<u>(204)</u>	<u>(305)</u>	<u>24</u>	<u>610</u>	<u>664</u>	<u>10,386</u>
	39			305				344
			22					7,367
								(2,470)
								3
	<u>39</u>		<u>22</u>	<u>305</u>				<u>5,244</u>
	(40)	(22)				(33)	(313)	(24,770)
								26,063
								1,781
					(27)			(83)
					(3)			(33,296)
								(5,533)
	<u>(40)</u>	<u>(22)</u>			<u>(30)</u>	<u>(33)</u>	<u>(313)</u>	<u>(35,838)</u>
								4,068
								4,068
21	(72)	(51)	(182)		(6)	577	351	(16,140)
<u>1,183</u>	<u>72</u>	<u>560</u>	<u>577</u>	<u>-</u>	<u>154</u>	<u>3,420</u>	<u>9,546</u>	<u>263,472</u>
\$ <u>1,204</u>	\$ <u>-</u>	\$ <u>509</u>	\$ <u>395</u>	\$ <u>-</u>	\$ <u>148</u>	\$ <u>3,997</u>	\$ <u>9,897</u>	\$ <u>247,332</u>
\$ <u>(821)</u>	\$ <u>(163)</u>	\$ <u>(133)</u>	\$ <u>(220)</u>	\$ <u>(461)</u>	\$ <u>(8)</u>	\$ <u>612</u>	\$ <u>404</u>	\$ <u>(36,421)</u>
641	106	76			23	7	261	28,306
158								1,729
								84
2							(137)	(2,728)
						7		(258)
	56	13		137				52
	2	(8)						533
								141
								4,853
41	(72)	23	15	19	9	(19)	138	10,066
			1			3	(2)	19
								(4)
								4,014
<u>842</u>	<u>92</u>	<u>104</u>	<u>16</u>	<u>156</u>	<u>32</u>	<u>(2)</u>	<u>260</u>	<u>46,807</u>
\$ <u>21</u>	\$ <u>(71)</u>	\$ <u>(29)</u>	\$ <u>(204)</u>	\$ <u>(305)</u>	\$ <u>24</u>	\$ <u>610</u>	\$ <u>664</u>	\$ <u>10,386</u>
	\$ 3							\$ 212
								4,531
								(4,844)
	\$ <u>3</u>							\$ <u>(101)</u>



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# FIDUCIARY FUNDS

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**The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.**

Pension and Other Employee Benefit Trust:

Pension Trust Fund - The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2001. As of that date there were 194,725 active members and 77,742 retired members representing a 3.5% and 8.5% increase, respectively, since the previous actuarial valuation in 1999.

Employee Flexible Benefits - Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Private-Purpose Trust Funds:

Baccalaureate Education - This fund was created by the General Assembly in 1996, to account for the collection of monies from individuals to purchase tuition units. These tuition units allow for a purchaser to prepay for college tuition.

Children in State Custody - This fund accounts for monies held and used for the benefit of children in the custody of the State. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring - Created in 2000 through a consent order with the United States Department of Energy (DOE), this fund is used to account for monies paid to the Tennessee Department of Environment and Conservation (TDEC) for surveillance and maintenance expenses related to the Environmental Management Waste Management Facility at Oak Ridge. After the facility has been closed, TDEC will assume responsibility for monitoring and maintenance, using the income generated from the corpus as of the date of the last installment.

Duck River Water Supply - This fund accounts for monies received from the Tennessee Valley Authority to be held for the various Duck River utility districts.

Other - Other trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund - The purpose of the Local Government Fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund - This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.

STATE OF TENNESSEE  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	STATE EMPLOYEES, TEACHERS, HIGHER EDUCATION EMPLOYEES PENSION PLAN (SETHEEPP)	POLITICAL SUBDIVISIONS PENSION PLAN (PSPP)	TOTAL PENSION	OTHER EMPLOYEE BENEFIT TRUST	TOTAL PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	\$ 1,400,985	\$ 220,375	\$ 1,621,360	\$ 201	\$ 1,621,561
RECEIVABLES:					
MEMBER CONTRIBUTIONS	15,251	4,050	19,301		19,301
EMPLOYER CONTRIBUTIONS	11,789	8,747	20,536		20,536
ACCRUED INTEREST	116,555	18,334	134,889		134,889
ACCRUED DIVIDENDS	10,524	1,656	12,180		12,180
INVESTMENTS SOLD	14,980	2,356	17,336		17,336
TOTAL RECEIVABLES	169,099	35,143	204,242		204,242
DUE FROM OTHER FUNDS	3,032		3,032	135	3,167
DUE FROM COMPONENT UNITS	3,370		3,370	2	3,372
INVESTMENTS:					
SHORT TERM SECURITIES	274,249	43,139	317,388		317,388
GOVERNMENT BONDS	7,517,686	1,182,530	8,700,216		8,700,216
CORPORATE BONDS	2,404,489	378,226	2,782,715		2,782,715
CORPORATE STOCKS	7,931,835	1,247,676	9,179,511		9,179,511
REAL ESTATE	304,659	47,923	352,582		352,582
TOTAL INVESTMENTS	18,432,918	2,899,494	21,332,412		21,332,412
TOTAL ASSETS	20,009,404	3,155,012	23,164,416	338	23,164,754
<b>LIABILITIES</b>					
ACCOUNTS PAYABLE AND ACCRUALS	100,029	16,301	116,330	57	116,387
TOTAL LIABILITIES	100,029	16,301	116,330	57	116,387
<b>NET ASSETS</b>					
HELD IN TRUST FOR:					
PENSION BENEFITS	19,909,375	3,138,711	23,048,086		23,048,086
EMPLOYEES' FLEXIBLE BENEFITS				281	281
TOTAL NET ASSETS	\$ 19,909,375	\$ 3,138,711	\$ 23,048,086	\$ 281	\$ 23,048,367

STATE OF TENNESSEE  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	STATE EMPLOYEES, TEACHERS,HIGHER EDUCATION EMPLOYEES PENSION PLAN (SETHEEPP)	POLITICAL SUBDIVISIONS PENSION PLAN (PSPP)	TOTAL PENSION	OTHER EMPLOYEE BENEFIT TRUST FUND	TOTAL PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
<b>ADDITIONS</b>					
CONTRIBUTIONS:					
MEMBERS	\$ 142,126	\$ 47,139	\$ 189,265	\$ 4,411	\$ 193,676
EMPLOYERS	243,498		243,498		243,498
POLITICAL SUBDIVISIONS		103,374	103,374		103,374
TOTAL CONTRIBUTIONS	385,624	150,513	536,137	4,411	540,548
INVESTMENT INCOME:					
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS	(1,114,236)	(175,796)	(1,290,032)		(1,290,032)
INTEREST	642,393	101,391	743,784		743,784
DIVIDENDS	132,758	20,953	153,711		153,711
REAL ESTATE INCOME	23,451	3,701	27,152		27,152
SECURITIES LENDING	1,491	235	1,726		1,726
TOTAL INVESTMENT INCOME (LOSS)	(314,143)	(49,516)	(363,659)		(363,659)
LESS: INVESTMENT EXPENSES	12,190	1,904	14,094		14,094
SECURITIES LENDING EXPENSES	953	150	1,103		1,103
NET INVESTMENT INCOME (LOSS)	(327,286)	(51,570)	(378,856)		(378,856)
TOTAL ADDITIONS	58,338	98,943	157,281	4,411	161,692
<b>DEDUCTIONS</b>					
ANNUITY BENEFITS:					
RETIREMENT BENEFITS	579,394	89,994	669,388		669,388
COST OF LIVING	129,919	15,417	145,336		145,336
DEATH BENEFITS	2,225	1,143	3,368		3,368
OTHER BENEFITS				4,423	4,423
REFUNDS	12,688	11,616	24,304		24,304
ADMINISTRATIVE EXPENSES	2,714	2,290	5,004		5,004
TOTAL DEDUCTIONS	726,940	120,460	847,400	4,423	851,823
CHANGE IN NET ASSETS HELD IN TRUST FOR:					
PENSION BENEFITS	(668,602)	(21,517)	(690,119)		(690,119)
EMPLOYEES' FLEXIBLE BENEFITS				(12)	(12)
NET ASSETS, JULY 1	20,577,977	3,160,228	23,738,205	293	23,738,498
NET ASSETS, JUNE 30	\$ 19,909,375	\$ 3,138,711	\$ 23,048,086	\$ 281	\$ 23,048,367

STATE OF TENNESSEE  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
PRIVATE-PURPOSE TRUST FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	BACCALAUREATE EDUCATION	CHILDREN IN STATE CUSTODY	OAK RIDGE MONITORING	DUCK RIVER WATER SUPPLY	OTHER	TOTAL PRIVATE-PURPOSE TRUST FUNDS
<b>ASSETS</b>						
CASH AND CASH EQUIVALENTS	\$ 3,960	\$ 14,071	\$ 2,086	\$ 9,517	\$ 1,212	\$ 30,846
RECEIVABLES:						
INTEREST AND DIVIDENDS	86					86
OTHER					48	48
DUE FROM OTHER FUNDS	10					10
INVESTMENTS	<u>30,658</u>					<u>30,658</u>
TOTAL ASSETS	<u>34,714</u>	<u>14,071</u>	<u>2,086</u>	<u>9,517</u>	<u>1,260</u>	<u>61,648</u>
<b>LIABILITIES</b>						
ACCOUNTS PAYABLE AND ACCRUALS		<u>101</u>				<u>101</u>
TOTAL LIABILITIES		<u>101</u>				<u>101</u>
<b>NET ASSETS</b>						
HELD IN TRUST FOR:						
INDIVIDUALS, ORGANIZATIONS AND OTHER GOVERNMENTS	<u>\$ 34,714</u>	<u>\$ 13,970</u>	<u>\$ 2,086</u>	<u>\$ 9,517</u>	<u>\$ 1,260</u>	<u>\$ 61,547</u>

STATE OF TENNESSEE  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PRIVATE-PURPOSE TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	BACCALAUREATE EDUCATION	CHILDREN IN STATE CUSTODY	OAK RIDGE MONITORING	DUCK RIVER WATER SUPPLY	OTHER	TOTAL PRIVATE-PURPOSE TRUST FUNDS
<b>ADDITIONS</b>						
CONTRIBUTIONS:						
FEDERAL		\$ 7,600	\$ 1,000	\$ 9,331		\$ 17,931
PRIVATE	\$ 9,158				\$ 495	9,653
OTHER					85	85
TOTAL CONTRIBUTIONS	9,158	7,600	1,000	9,331	580	27,669
INVESTMENT INCOME:						
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS	(2,154)					(2,154)
INTEREST	744	212	43	198	39	1,236
TOTAL INVESTMENT INCOME (LOSS)	(1,410)	212	43	198	39	(918)
TOTAL ADDITIONS	7,748	7,812	1,043	9,529	619	26,751
<b>DEDUCTIONS</b>						
BENEFITS	702	5,694			1,107	7,503
REFUNDS	104	4,380				4,484
ADMINISTRATIVE EXPENSES	236			12		248
TOTAL DEDUCTIONS	1,042	10,074		12	1,107	12,235
CHANGE IN NET ASSETS HELD IN TRUST FOR:						
INDIVIDUALS, ORGANIZATIONS AND OTHER GOVERNMENTS	6,706	(2,262)	1,043	9,517	(488)	14,516
NET ASSETS, JULY 1	28,008	16,232	1,043	-	1,748	47,031
NET ASSETS, JUNE 30	<u>\$ 34,714</u>	<u>\$ 13,970</u>	<u>\$ 2,086</u>	<u>\$ 9,517</u>	<u>\$ 1,260</u>	<u>\$ 61,547</u>



STATE OF TENNESSEE  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
JUNE 30, 2002

(Expressed in Thousands)

	<u>LOCAL GOVERNMENT</u>	<u>CONTINGENT REVENUE</u>	<u>TOTAL AGENCY FUNDS</u>
<b>ASSETS</b>			
CASH AND CASH EQUIVALENTS	\$ 215,610	\$ 74,425	\$ 290,035
RECEIVABLES:			
TAXES	241,849		241,849
DUE FROM OTHER FUNDS		7,500	7,500
DUE FROM COMPONENT UNITS		44	44
	<u>457,459</u>	<u>81,969</u>	<u>539,428</u>
TOTAL ASSETS	<u>457,459</u>	<u>81,969</u>	<u>539,428</u>
<b>LIABILITIES</b>			
ACCOUNTS PAYABLE AND ACCRUALS	457,459	17,208	474,667
AMOUNTS HELD IN CUSTODY FOR OTHERS		64,761	64,761
	<u>457,459</u>	<u>81,969</u>	<u>539,428</u>
TOTAL LIABILITIES	<u>\$ 457,459</u>	<u>\$ 81,969</u>	<u>\$ 539,428</u>

STATE OF TENNESSEE  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

<u>LOCAL GOVERNMENT FUND</u>	<u>BALANCE JULY 1, 2001</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2002</u>
<u>ASSETS</u>				
CASH AND CASH EQUIVALENTS	\$ 233,273	\$ 2,357,321	\$ 2,374,984	\$ 215,610
ACCOUNTS RECEIVABLES	196,307	245,004	199,462	241,849
TOTAL ASSETS	<u>\$ 429,580</u>	<u>\$ 2,602,325</u>	<u>\$ 2,574,446</u>	<u>\$ 457,459</u>
<u>LIABILITIES</u>				
ACCOUNTS PAYABLE AND ACCRUALS	\$ 429,580	\$ 2,468,669	\$ 2,440,790	\$ 457,459
TOTAL LIABILITIES	<u>\$ 429,580</u>	<u>\$ 2,468,669</u>	<u>\$ 2,440,790</u>	<u>\$ 457,459</u>
 <u>CONTINGENT REVENUE FUND</u>				
<u>ASSETS</u>				
CASH AND CASH EQUIVALENTS	\$ 103,579	\$ 1,658,635	\$ 1,687,789	\$ 74,425
DUE FROM OTHER FUNDS	7,375	7,581	7,456	7,500
DUE FROM COMPONENT UNITS	39	44	39	44
TOTAL ASSETS	<u>\$ 110,993</u>	<u>\$ 1,666,260</u>	<u>\$ 1,695,284</u>	<u>\$ 81,969</u>
<u>LIABILITIES</u>				
ACCOUNTS PAYABLE AND ACCRUALS	\$ 22,945	\$ 335,722	\$ 341,459	\$ 17,208
AMOUNT HELD IN CUSTODY FOR OTHERS	88,048	631,768	655,055	64,761
TOTAL LIABILITIES	<u>\$ 110,993</u>	<u>\$ 967,490</u>	<u>\$ 996,514</u>	<u>\$ 81,969</u>
 <u>TOTALS-ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
CASH AND CASH EQUIVALENTS	\$ 336,852	\$ 4,015,956	\$ 4,062,773	\$ 290,035
ACCOUNTS RECEIVABLES	196,307	245,004	199,462	241,849
DUE FROM OTHER FUNDS	7,375	7,581	7,456	7,500
DUE FROM COMPONENT UNITS	39	44	39	44
TOTAL ASSETS	<u>\$ 540,573</u>	<u>\$ 4,268,585</u>	<u>\$ 4,269,730</u>	<u>\$ 539,428</u>
<u>LIABILITIES</u>				
ACCOUNTS PAYABLE AND ACCRUALS	\$ 452,525	\$ 2,804,391	\$ 2,782,249	\$ 474,667
AMOUNT HELD IN CUSTODY FOR OTHERS	88,048	631,768	655,055	64,761
TOTAL LIABILITIES	<u>\$ 540,573</u>	<u>\$ 3,436,159</u>	<u>\$ 3,437,304</u>	<u>\$ 539,428</u>

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# COMPONENT UNITS

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Tennessee Student Assistance Corporation - This fund is used to account for the guaranteed loans program administered by Tennessee Student Assistance Corporation (TSAC).

Community Services Agencies - In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The State has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. The twelve Community Services Agencies are:

Northeast Community Services Agency  
East Tennessee Community Services Agency  
Upper Cumberland Community Services Agency  
Southeast Community Services Agency  
Mid-Cumberland Community Services Agency  
South Central Community Services Agency  
Northwest Community Services Agency  
Southwest Community Services Agency  
Davidson County Community Services Agency  
Knox County Community Services Agency  
Shelby County Community Services Agency  
Hamilton County Community Services Agency

Housing Development Agency - Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Board of Regents - The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, twelve community colleges, one technical institute, and twenty-seven technology centers) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

## UNIVERSITIES

Austin Peay State University	Clarksville
East Tennessee State University	Johnson City
Middle Tennessee State University	Murfreesboro
Tennessee State University	Nashville
Tennessee Technological University	Cookeville
University of Memphis	Memphis

## COMMUNITY COLLEGES

Chattanooga State Technical Community College	Chattanooga
Cleveland State Community College	Cleveland
Columbia State Community College	Columbia
Dyersburg State Community College	Dyersburg
Jackson State Community College	Jackson
Motlow State Community College	Tullahoma
Northeast State Technical Community College	Blountville
Pellissippi State Technical Community College	Knoxville
Roane State Community College	Harriman
Southwest Tennessee Community College	Memphis
Volunteer State Community College	Gallatin
Walters State Community College	Morristown

## STATE TECHNICAL INSTITUTES

Nashville State Technical Institute	Nashville
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Various two-year associate degree programs are available at the technical institutes. In addition, special industrial and community service courses are offered as the demand arises from interested groups.

## TECHNOLOGY CENTERS

Athens	McKenzie
Chattanooga	McMinnville
Covington	Memphis
Crossville	Morristown
Crump	Murfreesboro
Dickson	Nashville
Elizabethton	Newbern
Harriman	Oneida
Hartsville	Paris
Hohenwald	Pulaski
Jacksboro	Ripley
Jackson	Shelbyville
Knoxville	Whiteville
Livingston	

The purpose of the technology centers is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees - The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority - This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the State Loan Program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Veterans' Homes Board - Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Child Care Facilities - This organization was formed to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The sources of revenues are interest on loans made and grants from the federal government.

Tennessee State School Bond Authority (TSSBA) - Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's universities. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. In addition, the Authority issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state.

Certified Cotton Growers' Organization - This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.

STATE OF TENNESSEE  
COMBINING STATEMENT OF NET ASSETS  
COMPONENT UNITS  
JUNE 30, 2002

(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES					
	TENNESSEE STUDENT ASSISTANCE CORPORATION	NORTHEAST	EAST TENNESSEE	UPPER CUMBERLAND	SOUTHEAST	MID- CUMBERLAND
<b>ASSETS</b>						
CASH AND CASH EQUIVALENTS	\$ 71,759	\$ 713	\$ 1,619	\$ 801	\$ 673	\$ 893
CASH ON DEPOSIT WITH FISCAL AGENT						
INVESTMENTS						
INVESTMENTS WITH FISCAL AGENT						
RECEIVABLES, net	26,844	8		7	7	
DUE FROM PRIMARY GOVERNMENT		340	1,885	154	671	277
INVENTORIES, at cost						
PREPAYMENTS			5		1	17
LOANS RECEIVABLE	5,934					
DEFERRED CHARGES AND OTHER						
<b>RESTRICTED ASSETS:</b>						
CASH AND CASH EQUIVALENTS						
INVESTMENTS						
RECEIVABLES, net						
<b>CAPITAL ASSETS:</b>						
LAND, at cost						
INFRASTRUCTURE						
STRUCTURES AND IMPROVEMENTS, at cost						
MACHINERY AND EQUIPMENT, at cost		25	167	47	80	218
LESS ACCUMULATED DEPRECIATION		(19)	(96)	(10)	(65)	(179)
CONSTRUCTION IN PROGRESS						
<b>TOTAL ASSETS</b>	<u>104,537</u>	<u>1,067</u>	<u>3,580</u>	<u>999</u>	<u>1,367</u>	<u>1,226</u>
<b>LIABILITIES</b>						
ACCOUNTS PAYABLE AND ACCRUALS	25,972	256	370	151	192	525
DUE TO PRIMARY GOVERNMENT	10	63	1,733	342	242	429
DEFERRED REVENUE	108			5		
ADVANCE FROM FEDERAL GOVERNMENT	695					
OTHER						
<b>NONCURRENT LIABILITIES:</b>						
DUE WITHIN ONE YEAR	50	150	98	48	41	67
DUE IN MORE THAN ONE YEAR	52	39	44	30	30	64
<b>TOTAL LIABILITIES</b>	<u>26,887</u>	<u>508</u>	<u>2,245</u>	<u>576</u>	<u>505</u>	<u>1,085</u>
<b>NET ASSETS</b>						
INVESTED IN CAPITAL ASSETS, NET OF						
RELATED DEBT		6	71	37	15	12
<b>RESTRICTED FOR:</b>						
DEBT SERVICE						
CAPITAL PROJECTS						
SINGLE FAMILY BOND PROGRAMS						
OTHER						
<b>PERMANENT AND ENDOWMENT:</b>						
NONEXPENDABLE						
<b>UNRESTRICTED</b>	<u>77,650</u>	<u>553</u>	<u>1,264</u>	<u>386</u>	<u>847</u>	<u>129</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 77,650</u>	<u>\$ 559</u>	<u>\$ 1,335</u>	<u>\$ 423</u>	<u>\$ 862</u>	<u>\$ 141</u>

GOVERNMENTAL FUND TYPES

<u>SOUTH CENTRAL</u>	<u>NORTHWEST</u>	<u>SOUTHWEST</u>	<u>DAVIDSON COUNTY</u>	<u>KNOX COUNTY</u>	<u>SHELBY COUNTY</u>	<u>HAMILTON COUNTY</u>
\$ 639	\$ 380	\$ 398	\$ 52	\$ 45	\$ 898	\$ 232
	1		274		18	26
166	572	788	1,154	427	1,487	261
1	2	6		2	22	3
21	23	31		55	338	23
(18)	(15)	(25)		(36)	(162)	(15)
<u>809</u>	<u>963</u>	<u>1,198</u>	<u>1,480</u>	<u>493</u>	<u>2,601</u>	<u>530</u>
227	153	420	1,197	206	600	150
130	253	185		22	632	26
47	67	98		21	177	23
11	60	82		72	80	25
<u>415</u>	<u>533</u>	<u>785</u>	<u>1,197</u>	<u>321</u>	<u>1,489</u>	<u>224</u>
3	9	6			72	8
<u>391</u>	<u>421</u>	<u>407</u>	<u>283</u>	<u>172</u>	<u>1,040</u>	<u>298</u>
\$ <u>394</u>	\$ <u>430</u>	\$ <u>413</u>	\$ <u>283</u>	\$ <u>172</u>	\$ <u>1,112</u>	\$ <u>306</u>

(continued on next page)

(continued from previous page)

STATE OF TENNESSEE  
COMBINING STATEMENT OF NET ASSETS  
COMPONENT UNITS  
JUNE 30, 2002

(Expressed in Thousands)

	PROPRIETARY FUND TYPES			
	HOUSING DEVELOPMENT AGENCY	BOARD OF REGENTS	UNIVERSITY OF TENNESSEE	LOCAL DEVELOPMENT AUTHORITY
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	\$ 258,413	\$ 179,637	\$ 158,661	\$ 27,483
CASH ON DEPOSIT WITH FISCAL AGENT				
INVESTMENTS	326,540	110,472	444,159	299
INVESTMENTS WITH FISCAL AGENT			4,442	
RECEIVABLES, net	35,453	123,010	261,377	202
DUE FROM PRIMARY GOVERNMENT		1,118	12,365	
INVENTORIES, at cost		6,450	10,118	
PREPAYMENTS		1,800	3,444	
LOANS RECEIVABLE	1,539,844			95,046
DEFERRED CHARGES AND OTHER	11,923	2,187	1,789	324
<b>RESTRICTED ASSETS:</b>				
CASH AND CASH EQUIVALENTS	6,468	170,219	211,176	
INVESTMENTS	189,990			6,634
RECEIVABLES, net	2,470			
<b>CAPITAL ASSETS:</b>				
LAND, at cost		78,263	45,103	
INFRASTRUCTURE		124,553	52,265	
STRUCTURES AND IMPROVEMENTS, at cost		1,292,487	954,253	
MACHINERY AND EQUIPMENT, at cost	71	306,308	336,104	
LESS ACCUMULATED DEPRECIATION	(66)	(748,573)	(651,815)	
CONSTRUCTION IN PROGRESS		98,867	99,223	
<b>TOTAL ASSETS</b>	<b>2,371,106</b>	<b>1,746,798</b>	<b>1,942,664</b>	<b>129,988</b>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE AND ACCRUALS	55,134	79,100	94,037	1,660
DUE TO PRIMARY GOVERNMENT	35,420	2,180	2,927	
DEFERRED REVENUE	1,589	32,379	63,148	
ADVANCE FROM FEDERAL GOVERNMENT				
OTHER	1,429	121,194	12,457	
<b>NONCURRENT LIABILITIES:</b>				
DUE WITHIN ONE YEAR	174,475	28,621	44,891	55,738
DUE IN MORE THAN ONE YEAR	1,733,060	250,263	275,259	58,739
<b>TOTAL LIABILITIES</b>	<b>2,001,107</b>	<b>513,737</b>	<b>492,719</b>	<b>116,137</b>
<b>NET ASSETS</b>				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	5	924,242	636,282	
<b>RESTRICTED FOR:</b>				
DEBT SERVICE		4,008	593	
CAPITAL PROJECTS		23,519	3,464	
SINGLE FAMILY BOND PROGRAMS	348,167			
OTHER	11,451	44,815	288,130	351
<b>PERMANENT AND ENDOWMENT:</b>				
NONEXPENDABLE		9,129	287,057	
<b>UNRESTRICTED</b>	<b>10,376</b>	<b>227,348</b>	<b>234,419</b>	<b>13,500</b>
<b>TOTAL NET ASSETS</b>	<b>\$ 369,999</b>	<b>\$ 1,233,061</b>	<b>\$ 1,449,945</b>	<b>\$ 13,851</b>

PROPRIETARY FUND TYPES				
VETERANS' HOMES BOARD	CHILD CARE FACILITIES	STATE SCHOOL BOND AUTHORITY	CERTIFIED COTTON GROWERS'	TOTAL COMPONENT UNITS
\$ 2,221	\$ 374	\$ 55,224	\$ 2,542	\$ 763,657
		37		37
54				881,524
				4,442
985	186	4,065	221	452,684
			2,250	23,915
50				16,618
81				5,384
	54	425,749		2,066,627
105		4,014	30	20,372
1,338		1,749		390,950
		13,699		210,323
				2,470
194				123,560
				176,818
11,065				2,257,805
1,784				645,295
(3,489)				(1,404,583)
				198,090
<u>14,388</u>	<u>614</u>	<u>504,537</u>	<u>5,043</u>	<u>6,835,988</u>
1,475	93	3,866	257	266,041
60	1			44,655
		794		98,023
				695
	25			135,105
269	5	22,372	3,029	330,287
<u>4,640</u>	<u>6</u>	<u>469,554</u>	<u>29,277</u>	<u>2,821,387</u>
<u>6,444</u>	<u>130</u>	<u>496,586</u>	<u>32,563</u>	<u>3,696,193</u>
4,987				1,565,755
1,338				5,939
				26,983
				348,167
				344,747
				296,186
<u>1,619</u>	<u>484</u>	<u>7,951</u>	<u>(27,520)</u>	<u>552,018</u>
\$ <u><u>7,944</u></u>	\$ <u><u>484</u></u>	\$ <u><u>7,951</u></u>	\$ <u><u>(27,520)</u></u>	\$ <u><u>3,139,795</u></u>



STATE OF TENNESSEE  
COMBINING STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

FUNCTIONS/PROGRAMS COMPONENT UNITS:	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
HIGHER EDUCATION INSTITUTIONS:					
BOARD OF REGENTS	\$ 1,440,499	\$ 439,878	\$ 319,250	\$ 97,863	\$ (583,508)
UNIVERSITY OF TENNESSEE	1,311,368	438,521	422,944	42,961	(406,942)
TOTAL HIGHER EDUCATION INSTITUTIONS	2,751,867	878,399	742,194	140,824	(990,450)
LOAN PROGRAMS:					
TENNESSEE STUDENT ASSISTANCE CORPORATION	78,167	739	22,086		(55,342)
HOUSING DEVELOPMENT AGENCY	293,987	117,042	172,443		(4,502)
LOCAL DEVELOPMENT AUTHORITY	5,383	5,321	870		808
CHILD CARE FACILITIES	453	6	198		(249)
STATE SCHOOL BOND AUTHORITY	22,685	21,553	1,056		(76)
TOTAL LOAN PROGRAMS	400,675	144,661	196,653		(59,361)
OTHER PROGRAMS:					
NORTHEAST	5,068	415	4,310		(343)
EAST TENNESSEE	6,190	751	5,283		(156)
UPPER CUMBERLAND	3,406	369	2,855		(182)
SOUTHEAST	3,085	486	2,455		(144)
MID-CUMBERLAND	6,103	329	5,770		(4)
SOUTH CENTRAL	2,981	386	2,634		39
NORTHWEST	3,920	147	3,431		(342)
SOUTHWEST	6,156	217	5,417		(522)
DAVIDSON COUNTY	5,056		5,056		
KNOX COUNTY	2,722		2,532		(190)
SHELBY COUNTY	7,372	798	6,604		30
HAMILTON COUNTY	2,622		2,451		(171)
VETERANS' HOMES BOARD	11,603	11,512	57		(34)
CERTIFIED COTTON GROWERS'	19,721	13,239			(6,482)
TOTAL OTHER PROGRAMS	86,005	28,649	48,855		(8,501)
TOTAL	\$ 3,238,547	\$ 1,051,709	\$ 987,702	\$ 140,824	\$ (1,058,312)

GENERAL REVENUES							
PAYMENTS FROM PRIMARY GOVERNMENT	UNRESTRICTED GRANTS AND CONTRIBUTIONS	CONTRIBUTIONS TO PERMANENT FUNDS	UNRESTRICTED INVESTMENT EARNINGS	MISCELLANEOUS	CHANGE IN NET ASSETS	NET ASSETS JULY 1	NET ASSETS JUNE 30
\$ 612,900	\$ 4,971	\$ 96	\$ 11,548	\$ 4,564	\$ 50,571	\$ 1,182,490	\$ 1,233,061
415,921	5,274	23,939	13,923	175	52,290	1,397,655	1,449,945
1,028,821	10,245	24,035	25,471	4,739	102,861	2,580,145	2,683,006
38,724					(16,618)	94,268	77,650
			299		(4,203)	374,202	369,999
25					833	13,018	13,851
					(249)	733	484
					(76)	8,027	7,951
38,749			299		(20,313)	490,248	469,935
341			27		25	534	559
359			31		234	1,101	1,335
266			18		102	321	423
251			13		120	742	862
			16		12	129	141
14					53	341	394
292			15		(35)	465	430
377			14		(131)	544	413
			5		5	278	283
212			6		28	144	172
344			12		386	726	1,112
213			8		50	256	306
	25				(9)	7,953	7,944
4,500			47		(1,935)	(25,585)	(27,520)
7,169	25		212		(1,095)	(12,051)	(13,146)
\$ 1,074,739	\$ 10,270	\$ 24,035	\$ 25,982	\$ 4,739	\$ 81,453	\$ 3,058,342	\$ 3,139,795

STATE OF TENNESSEE  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND TYPE COMPONENT UNITS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	<u>TENNESSEE STUDENT ASSISTANCE CORPORATION</u>	<u>NORTHEAST</u>	<u>EAST TENNESSEE</u>	<u>UPPER CUMBERLAND</u>	<u>SOUTHEAST</u>	<u>MID- CUMBERLAND</u>
<b>REVENUES</b>						
LICENSES, FINES, FEES, AND PERMITS						
INTEREST ON INVESTMENTS	\$ 1,956	\$ 28	\$ 31	\$ 18	\$ 13	\$ 16
FEDERAL	20,111			493		
DEPARTMENTAL SERVICES	39,463	5,066	6,387	2,932	3,172	6,096
OTHER	19		6	66	20	2
	<u>61,549</u>	<u>5,094</u>	<u>6,424</u>	<u>3,509</u>	<u>3,205</u>	<u>6,114</u>
<b>EXPENDITURES</b>						
EDUCATION	78,156					
HEALTH AND SOCIAL SERVICES		5,056	6,171	3,433	3,082	6,109
	<u>78,156</u>	<u>5,056</u>	<u>6,171</u>	<u>3,433</u>	<u>3,082</u>	<u>6,109</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(16,607)	38	253	76	123	5
FUND BALANCES, JULY 1	<u>94,359</u>	<u>704</u>	<u>1,153</u>	<u>388</u>	<u>795</u>	<u>228</u>
FUND BALANCES, JUNE 30	<u>\$ 77,752</u>	<u>\$ 742</u>	<u>\$ 1,406</u>	<u>\$ 464</u>	<u>\$ 918</u>	<u>\$ 233</u>
RECONCILIATION TO NET ASSETS:						
FUND BALANCES PER ABOVE	\$ 77,752	\$ 742	\$ 1,406	\$ 464	\$ 918	\$ 233
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND THEREFORE ARE NOT REPORTED IN THE FUNDS.		6	71	37	15	39
LONG-TERM LIABILITIES ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND THEREFORE ARE NOT REPORTED IN THE FUNDS.	<u>(102)</u>	<u>(189)</u>	<u>(142)</u>	<u>(78)</u>	<u>(71)</u>	<u>(131)</u>
NET ASSETS ON STATEMENT OF NET ASSETS	<u>\$ 77,650</u>	<u>\$ 559</u>	<u>\$ 1,335</u>	<u>\$ 423</u>	<u>\$ 862</u>	<u>\$ 141</u>

<u>SOUTH CENTRAL</u>	<u>NORTHWEST</u>	<u>SOUTHWEST</u>	<u>DAVIDSON COUNTY</u>	<u>KNOX COUNTY</u>	<u>SHELBY COUNTY</u>	<u>HAMILTON COUNTY</u>	<u>TOTAL GOVERNMENTAL FUND TYPE COMPONENT UNITS</u>
\$ 13	\$ 15	\$ 14	\$ 5	\$ 6	\$ 12	\$ 8	\$ 2,135
3,011	3,870	6,010	5,055	2,744	7,746	2,652	20,604
10						13	94,204
<u>3,034</u>	<u>3,885</u>	<u>6,024</u>	<u>5,060</u>	<u>2,750</u>	<u>7,758</u>	<u>2,673</u>	<u>117,079</u>
							78,156
<u>2,976</u>	<u>3,908</u>	<u>6,140</u>	<u>5,055</u>	<u>2,712</u>	<u>7,384</u>	<u>2,615</u>	<u>54,641</u>
<u>2,976</u>	<u>3,908</u>	<u>6,140</u>	<u>5,055</u>	<u>2,712</u>	<u>7,384</u>	<u>2,615</u>	<u>132,797</u>
58	(23)	(116)	5	38	374	58	(15,718)
<u>391</u>	<u>572</u>	<u>703</u>	<u>278</u>	<u>208</u>	<u>819</u>	<u>288</u>	<u>100,886</u>
<u>\$ 449</u>	<u>\$ 549</u>	<u>\$ 587</u>	<u>\$ 283</u>	<u>\$ 246</u>	<u>\$ 1,193</u>	<u>\$ 346</u>	<u>\$ 85,168</u>
\$ 449	\$ 549	\$ 587	\$ 283	\$ 246	\$ 1,193	\$ 346	\$ 85,168
3	8	6		19	176	8	388
(58)	(127)	(180)		(93)	(257)	(48)	(1,476)
<u>\$ 394</u>	<u>\$ 430</u>	<u>\$ 413</u>	<u>\$ 283</u>	<u>\$ 172</u>	<u>\$ 1,112</u>	<u>\$ 306</u>	<u>\$ 84,080</u>

STATE OF TENNESSEE  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND TYPE COMPONENT UNITS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	HOUSING DEVELOPMENT AGENCY	BOARD OF REGENTS	UNIVERSITY OF TENNESSEE	LOCAL DEVELOPMENT AUTHORITY
<b>OPERATING REVENUES</b>				
CHARGES FOR SERVICES	\$ 115,591	\$ 708,474	\$ 762,521	\$ 5,321
INVESTMENT INCOME	45,131			870
OTHER	1,451	8,909	19,616	
<b>TOTAL OPERATING REVENUES</b>	<b>162,173</b>	<b>717,383</b>	<b>782,137</b>	<b>6,191</b>
<b>OPERATING EXPENSES</b>				
PERSONAL SERVICES	7,368	893,838	896,676	
CONTRACTUAL SERVICES	1,402			140
MORTGAGE SERVICE FEES	5,424			
MATERIALS AND SUPPLIES	319	356,640	315,333	
RENTALS AND INSURANCE	771			
INTEREST	102,413			4,563
DEPRECIATION AND AMORTIZATION	830	61,936	71,397	25
NURSING HOME SERVICES				
SCHOLARSHIPS AND FELLOWSHIPS		76,402	7,816	
OTHER	2,455			655
<b>TOTAL OPERATING EXPENSES</b>	<b>120,982</b>	<b>1,388,816</b>	<b>1,291,222</b>	<b>5,383</b>
<b>OPERATING INCOME (LOSS)</b>	<b>41,191</b>	<b>(671,433)</b>	<b>(509,085)</b>	<b>808</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
GRANT INCOME	127,611	14,688	46,905	
GRANT EXPENSE	(137,638)			
INTEREST EXPENSE		(10,356)	(9,757)	
INTEREST INCOME		11,924	(3,104)	
PAYMENTS FROM PRIMARY GOVERNMENT		612,771	415,921	25
GRANTS AND CONTRIBUTIONS			3,872	
GIFTS		34,570	50,852	
PAYMENTS TO PRIMARY GOVERNMENT	(35,367)			
OTHER EXPENSES		(31,743)	(10,389)	
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(45,394)</b>	<b>631,854</b>	<b>494,300</b>	<b>25</b>
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>(4,203)</b>	<b>(39,579)</b>	<b>(14,785)</b>	<b>833</b>
<b>CAPITAL PAYMENTS FROM PRIMARY GOVERNMENT</b>		<b>54,905</b>	<b>34,102</b>	
<b>CAPITAL GRANTS AND GIFTS</b>		<b>43,075</b>	<b>8,859</b>	
<b>ADDITIONS TO PERMANENT ENDOWMENTS</b>		<b>96</b>	<b>23,128</b>	
<b>OTHER</b>		<b>(7,926)</b>	<b>986</b>	
<b>CHANGE IN NET ASSETS</b>	<b>(4,203)</b>	<b>50,571</b>	<b>52,290</b>	<b>833</b>
<b>NET ASSETS, JULY 1</b>	<b>374,202</b>	<b>1,182,490</b>	<b>1,397,655</b>	<b>13,018</b>
<b>NET ASSETS, JUNE 30</b>	<b>\$ 369,999</b>	<b>\$ 1,233,061</b>	<b>\$ 1,449,945</b>	<b>\$ 13,851</b>

VETERANS' HOMES BOARD	CHILD CARE FACILITIES	STATE SCHOOL BOND AUTHORITY	CERTIFIED COTTON GROWERS'	TOTAL PROPRIETARY FUND TYPE COMPONENT UNITS
\$ 11,508	\$ 6	\$ 21,553	\$ 13,237	\$ 1,638,211
	15	1,056		47,072
<u>4</u>			<u>2</u>	<u>29,982</u>
<u>11,512</u>	<u>21</u>	<u>22,609</u>	<u>13,239</u>	<u>1,715,265</u>
	85			1,797,967
	38	545	17,781	19,906
				5,424
	1			672,293
				771
		21,165		128,141
432		164		134,784
10,801				10,801
				84,218
	<u>144</u>	<u>811</u>	<u>42</u>	<u>4,107</u>
<u>11,233</u>	<u>268</u>	<u>22,685</u>	<u>17,823</u>	<u>2,858,412</u>
<u>279</u>	<u>(247)</u>	<u>(76)</u>	<u>(4,584)</u>	<u>(1,143,147)</u>
	183			189,387
	(185)			(137,823)
(327)			(1,898)	(22,338)
57			47	8,924
			4,500	1,033,217
				3,872
26				85,448
				(35,367)
<u>(44)</u>				<u>(42,176)</u>
<u>(288)</u>	<u>(2)</u>		<u>2,649</u>	<u>1,083,144</u>
(9)	(249)	(76)	(1,935)	(60,003)
				89,007
				51,934
				23,224
				(6,940)
(9)	(249)	(76)	(1,935)	97,222
<u>7,953</u>	<u>733</u>	<u>8,027</u>	<u>(25,585)</u>	<u>2,958,493</u>
\$ <u>7,944</u>	\$ <u>484</u>	\$ <u>7,951</u>	\$ <u>(27,520)</u>	\$ <u>3,055,715</u>

STATE OF TENNESSEE  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE COMPONENT UNITS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	HOUSING DEVELOPMENT AGENCY	BOARD OF REGENTS	UNIVERSITY OF TENNESSEE	LOCAL DEVELOPMENT AUTHORITY
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
RECEIPTS FROM CUSTOMERS AND USERS	\$ 302,198	\$ 702,818	\$ 762,878	
OTHER MISCELLANEOUS RECEIPTS	1,454	10,937	33,200	
PAYMENTS TO SUPPLIERS	(3,429)	(344,573)	(325,460)	\$ (140)
PAYMENTS TO EMPLOYEES	(7,481)	(879,349)	(883,958)	
PAYMENTS FOR ACQUISITION OF MORTGAGE LOANS	(224,842)			
PAYMENTS TO SERVICE MORTGAGES	(5,424)			
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS		(76,139)	(21,285)	
PAYMENTS TO OTHER GOVERNMENTS	(6,382)			
OTHER MISCELLANEOUS PAYMENTS		(4,120)	(5,632)	
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	56,094	(590,426)	(440,257)	(140)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
OPERATING GRANTS RECEIVED	124,656			
OPERATING GRANTS PAID	(138,431)			
NEGATIVE CASH BALANCE IMPLICITLY FINANCED	26		(29,326)	
PROCEEDS FROM SALES OF BONDS, NOTES AND COMMERCIAL PAPER	277,565			51,541
BOND ISSUANCE COST	(1,939)			
CALL PREMIUMS PAID	(1,929)			
ADVANCE ON BOND SALE	850			
STATE APPROPRIATIONS RECEIVED		607,753	411,372	
GIFTS AND GRANTS		37,306	94,063	
SUBSIDY TO BORROWERS				(892)
PRINCIPAL PAYMENTS	(326,260)			(50,025)
FEDERAL STUDENT LOAN RECEIPTS		15,306	117,824	
FEDERAL STUDENT LOAN PAYMENTS		(15,310)	(117,824)	
INTEREST PAID	(98,057)			(5,209)
OTHER RECEIPTS			7,666	25
OTHER PAYMENTS		(4,850)	(6,757)	
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(163,519)	640,205	477,018	(4,560)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
PURCHASE OF CAPITAL ASSETS		(103,011)	(101,297)	
RECEIPTS FROM SALE OF CAPITAL ASSETS		38	1,086	
CAPITAL DEBT PROCEEDS		58,564	21,594	
STATE APPROPRIATIONS RECEIVED FOR CAPITAL PURPOSES		54,533	29,884	
BOND ISSUANCE COST		(276)		
GIFTS AND GRANTS RECEIVED		4,102	4,871	
PRINCIPAL PAYMENTS		(36,177)	(17,919)	
INTEREST PAID		(9,478)	(8,849)	
OTHER PAYMENTS		(3,284)	(1,644)	
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		(34,989)	(72,274)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
LOANS ISSUED				(8,976)
COLLECTION OF LOAN PRINCIPAL				10,252
PURCHASE OF INVESTMENTS	(490,207)	(6,575)	(112,450)	
PROCEEDS FROM INVESTMENTS	472,674	13,400	90,349	
INTEREST RECEIVED	31,647	12,459	38,705	6,296
OTHER RECEIPTS		349		
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	14,114	19,633	16,604	7,572
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(93,311)	34,423	(18,909)	2,872
CASH AND CASH EQUIVALENTS, JULY 1	358,192	315,433	388,746	24,611
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 264,881	\$ 349,856	\$ 369,837	\$ 27,483

VETERANS' HOMES BOARD	CHILD CARE FACILITIES	STATE SCHOOL BOND AUTHORITY	CERTIFIED COTTON GROWERS'	TOTAL PROPRIETARY FUND TYPE COMPONENT UNITS
\$ 11,625	\$ 2	\$ 193	\$ 12,571	\$ 1,792,285
25		176		45,792
(4,111)	(87)	(572)	(19,085)	(697,457)
(6,164)	(89)			(1,777,041)
				(224,842)
				(5,424)
				(97,424)
				(6,382)
(44)		(29)	(41)	(9,866)
1,331	(174)	(232)	(6,555)	(980,359)
				124,656
	(185)			(138,616)
				(29,300)
		162,772	14,116	505,994
		(324)		(2,263)
				(1,929)
				850
			2,250	1,021,375
				131,369
		(953)		(1,845)
		(99,838)	(5,514)	(481,637)
				133,130
				(133,134)
		(19,117)	(2,105)	(124,488)
				7,691
				(11,607)
	(185)	42,540	8,747	1,000,246
(136)				(204,444)
				1,124
				80,158
				84,417
				(276)
				8,973
(175)				(54,271)
(330)				(18,657)
1				(4,927)
(640)				(107,903)
		(61,257)		(70,233)
	29	25,881		36,162
		(30,921)		(640,153)
		32,915		609,338
52	19	19,658	47	108,883
				349
52	48	(13,724)	47	44,346
743	(311)	28,584	2,239	(43,670)
2,816	685	28,426	303	1,119,212
\$ 3,559	\$ 374	\$ 57,010	\$ 2,542	\$ 1,075,542

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STATE OF TENNESSEE  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE COMPONENT UNITS  
FOR FISCAL YEAR ENDED JUNE 30, 2002

(Expressed in Thousands)

	HOUSING DEVELOPMENT AGENCY	BOARD OF REGENTS	UNIVERSITY OF TENNESSEE	LOCAL DEVELOPMENT AUTHORITY
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
OPERATING INCOME (LOSS)	\$ 41,191	\$ (671,433)	\$ (509,085)	\$ 808
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
DEPRECIATION AND AMORTIZATION	830	61,936	71,397	25
INVESTMENT INCOME	(45,131)			(870)
CHARGES FOR SERVICES				(5,321)
INTEREST INCOME				
INTEREST EXPENSE	102,413			4,563
SUBSIDY TO BORROWERS				655
IN-KIND GIFTS		12,303		
MISCELLANEOUS		1,024	473	
CHANGES IN ASSETS AND LIABILITIES:				
(INCREASE)DECREASE IN ACCOUNTS RECEIVABLE	(40,254)	(11,393)	(10,066)	
(INCREASE)DECREASE IN DUE FROM PRIMARY GOVERNMENT		(138)	(4,390)	
(INCREASE)DECREASE IN INVENTORIES		504	(707)	
(INCREASE)DECREASE IN PREPAID EXPENSES		369	(802)	
(INCREASE)DECREASE IN DEFERRED CHARGES	152			
(INCREASE)DECREASE IN OTHER ASSETS		2,279		
INCREASE(DECREASE) IN ACCOUNTS PAYABLE	(2,974)	13,559	6,779	
INCREASE(DECREASE) IN DUE TO PRIMARY GOVERNMENT	4	(568)	460	
INCREASE(DECREASE) IN DEFERRED REVENUE	(137)	(6,923)	5,152	
INCREASE(DECREASE) IN OTHER		8,055	532	
TOTAL ADJUSTMENTS	14,903	81,007	68,828	(948)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 56,094	\$ (590,426)	\$ (440,257)	\$ (140)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
IN-KIND GIFTS		\$ 32,587		
CAPITALIZED LEASE		16,222		
BOND ISSUANCE COST				
INCREASE IN FAIR VALUE OF INVESTMENTS	\$ 22,653			
DECREASE IN FAIR VALUE OF INVESTMENTS				\$ (115)
ACCRETION OF BONDS	4,111			
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	\$ 26,764	\$ 48,809		\$ (115)

VETERANS' HOMES BOARD	CHILD CARE FACILITIES	STATE SCHOOL BOND AUTHORITY	CERTIFIED COTTON GROWERS'	TOTAL PROPRIETARY FUND TYPE COMPONENT UNITS
\$ 279	\$ (247)	\$ (76)	\$ (4,584)	\$ (1,143,147)
432		164		134,784
		(1,056)		(47,057)
	(4)			(5,325)
	(15)	(21,221)		(21,236)
		21,165		128,141
		811		1,466
				12,303
(18)			38	1,517
296		(152)	(152)	(61,721)
				(4,528)
11				(192)
10				(423)
			(30)	122
(8)				2,271
540	92	(26)	(1,827)	16,143
(211)				(315)
		159		(1,749)
				8,587
1,052	73	(156)	(1,971)	162,788
\$ 1,331	\$ (174)	\$ (232)	\$ (6,555)	\$ (980,359)
				\$ 32,587
				16,222
	\$ 792			792
	53			22,706
				(115)
		1,233		5,344
		\$ 2,078		\$ 77,536



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## **SUPPLEMENTARY SCHEDULES**

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STATE OF TENNESSEE  
DEBT SERVICE REQUIREMENTS TO MATURITY  
GENERAL OBLIGATION BONDS  
JUNE 30, 2002

SCHEDULE 1

(Expressed in Thousands)

FOR THE YEAR ENDED JUNE 30	GENERAL LONG-TERM DEBT			STATE LOAN PROGRAM FUND DEBT (Note 1)			FACILITIES REVOLVING FUND DEBT (Note 2)		
	PRINCIPAL	INTEREST	TOTAL REQUIRE- MENTS	PRINCIPAL	INTEREST	TOTAL REQUIRE- MENTS	PRINCIPAL	INTEREST	TOTAL REQUIRE- MENTS
2003	\$ 74,410	\$ 49,067	\$ 123,477	\$ 2,874	\$ 655	\$ 3,529	\$ 13,170	\$ 7,903	\$ 21,073
2004	74,104	45,661	119,765	3,019	513	3,532	13,150	7,254	20,404
2005	73,922	41,818	115,740	2,859	363	3,222	13,128	6,573	19,701
2006	73,783	37,861	111,644	1,674	222	1,896	13,107	5,881	18,988
2007	65,163	34,055	99,218	864	140	1,004	11,691	5,219	16,910
2008	59,917	30,845	90,762	899	101	1,000	11,258	4,658	15,916
2009	59,486	27,945	87,431	929	60	989	11,219	4,122	15,341
2010	57,905	25,102	83,007	959	27	986	10,150	3,604	13,754
2011	57,713	22,252	79,965				10,117	3,117	13,234
2012	53,954	19,366	73,320				10,081	2,620	12,701
2013	54,173	16,639	70,812				10,052	2,124	12,176
2014	48,253	13,900	62,153				9,792	1,627	11,419
2015	43,724	11,467	55,191				6,205	1,167	7,372
2016	39,547	9,255	48,802				5,205	965	6,170
2017	35,098	7,263	42,361				4,084	704	4,788
2018	27,682	5,483	33,165				3,355	497	3,852
2019	18,955	4,064	23,019				2,862	326	3,188
2020	15,409	3,070	18,479				2,704	183	2,887
2021	9,922	2,253	12,175				815	49	864
2022	9,960	1,837	11,797				802	22	824
2023	2,540	1,454	3,994						
2024	2,705	1,292	3,997						
2025	2,875	1,120	3,995						
2026	3,060	936	3,996						
2027	3,255	740	3,995						
2028	3,465	532	3,997						
2029	3,720	275	3,995						
TOTALS	\$ 974,700	\$ 415,552	\$ 1,390,252	\$ 14,077	\$ 2,081	\$ 16,158	\$ 162,947	\$ 58,615	\$ 221,562

Note 1: Tennessee State Loan Program principal is more than that presented in the accompanying financial statements by \$153 thousand, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by \$2.766 million, which is a deduction from bonds payable for the deferred amount on refunding.

STATE OF TENNESSEE  
SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY  
JUNE 30, 2002

SCHEDULE 2

(Expressed in Thousands)

FOR THE YEAR ENDED JUNE 30	GENERAL OBLIGATION BONDS		
	GENERAL LONG-TERM DEBT	STATE LOAN PROGRAM DEBT	FACILITIES REVOLVING FUND DEBT
2003	\$ 123,477	\$ 3,529	\$ 21,073
2004	119,765	3,532	20,404
2005	115,740	3,222	19,701
2006	111,644	1,896	18,988
2007	99,218	1,004	16,910
2008	90,762	1,000	15,916
2009	87,431	989	15,341
2010	83,007	986	13,754
2011	79,965		13,234
2012	73,320		12,701
2013	70,812		12,176
2014	62,153		11,419
2015	55,191		7,372
2016	48,802		6,170
2017	42,361		4,788
2018	33,165		3,852
2019	23,019		3,188
2020	18,479		2,887
2021	12,175		864
2022	11,797		824
2023	3,994		
2024	3,997		
2025	3,995		
2026	3,996		
2027	3,995		
2028	3,997		
2029	3,995		
TOTALS	\$ <u>1,390,252</u>	\$ <u>16,158</u>	\$ <u>221,562</u>

STATE OF TENNESSEE  
SCHEDULE OF OUTSTANDING DEBT  
ALL FUND TYPES  
FOR THE LAST FIVE FISCAL YEARS

SCHEDULE 3

(Expressed in Thousands)

	JUNE 30				
	1998	1999	2000	2001	2002
ENTERPRISE FUNDS:					
STATE LOAN PROGRAM GENERAL OBLIGATION BONDS	\$ 26,605	\$ 23,551	\$ 20,347	\$ 17,213	\$ 13,924
INTERNAL SERVICE FUNDS:					
GENERAL OBLIGATION BOND ANTICIPATION NOTES	46,250	31,772			
GENERAL OBLIGATION COMMERCIAL PAPER			38,754	9,485	4,131
FACILITIES REVOLVING FUND GENERAL OBLIGATION BONDS	139,384	135,281	125,448	150,747	160,181
	<u>185,634</u>	<u>167,053</u>	<u>164,202</u>	<u>160,232</u>	<u>164,312</u>
GENERAL LONG-TERM DEBT:					
GENERAL OBLIGATION BONDS	826,820	927,569	858,273	898,709	974,700
GENERAL OBLIGATION BOND ANTICIPATION NOTES	92,850	145,528			
GENERAL OBLIGATION COMMERCIAL PAPER			209,746	240,515	106,569
	<u>919,670</u>	<u>1,073,097</u>	<u>1,068,019</u>	<u>1,139,224</u>	<u>1,081,269</u>
TOTALS FOR PRIMARY GOVERNMENT	<u>\$ 1,131,909</u>	<u>\$ 1,263,701</u>	<u>\$ 1,252,568</u>	<u>\$ 1,316,669</u>	<u>\$ 1,259,505</u>

STATE OF TENNESSEE  
SCHEDULE OF GENERAL OBLIGATION  
COMMERCIAL PAPER OUTSTANDING-BY PURPOSE  
ALL FUND TYPES  
JUNE 30, 2002

SCHEDULE 4

(Expressed in Thousands)

GENERAL OBLIGATION COMMERCIAL PAPER-TAX EXEMPT	\$ 93,400
PURPOSE: TO FINANCE THE CONSTRUCTION, IMPROVEMENTS, REPAIRS, AND REPLACEMENTS OF BUILDINGS AND FACILITIES AND THE ACQUISITION OF LAND, EQUIPMENT AND OTHER PROPERTY OF THE STATE.	
GENERAL OBLIGATION COMMERCIAL PAPER-TAXABLE	
PURPOSE: TO FINANCE IMPROVEMENTS TO VARIOUS STATE PARKS AND TO FINANCE MENTAL HEALTH AND MENTAL RETARDATION FACILITIES	<u>17,300</u>
TOTAL OUTSTANDING	<u>\$ 110,700</u>

STATE OF TENNESSEE  
SCHEDULE OF OUTSTANDING DEBT  
COMPONENT UNITS  
FOR THE LAST FIVE FISCAL YEARS

SCHEDULE 5

(Expressed in Thousands)

	JUNE 30				
	1998	1999	2000	2001	2002
COMPONENT UNITS:					
CERTIFIED COTTON GROWERS' NOTES			\$ 7,530	\$ 23,704	\$ 32,306
LOCAL DEVELOPMENT AUTHORITY NOTES	\$ 26,059	\$ 33,100	37,631	45,025	51,513
LOCAL DEVELOPMENT AUTHORITY BONDS	90,703	62,813	58,263	54,559	50,664
TENNESSEE HOUSING DEVELOPMENT AGENCY BONDS	1,662,955	1,634,858	1,872,661	1,850,495	1,820,394
TENNESSEE HOUSING DEVELOPMENT AGENCY NOTES	47,755	65,235	31,180	84,865	67,909
VETERANS' HOMES BOARD BONDS	5,187	5,040	4,887	4,730	4,567
TENNESSEE STATE SCHOOL BOND AUTHORITY BONDS	318,696	329,562	271,814	359,225	471,136
TENNESSEE STATE SCHOOL BOND AUTHORITY NOTES	91,750				
TENNESSEE STATE SCHOOL BOND AUTHORITY					
COMMERCIAL PAPER		162,050	102,700	60,277	13,757
UNIVERSITY OF TENNESSEE NOTES	89	70	51	31	10
BOARD OF REGENTS NOTES	3,923	5,551	1,778	798	1,284
BOARD OF REGENTS BONDS	1,877	1,467	1,175	872	551
	<u>\$ 2,248,994</u>	<u>\$ 2,299,746</u>	<u>\$ 2,389,670</u>	<u>\$ 2,484,581</u>	<u>\$ 2,514,091</u>



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# STATISTICAL AND ECONOMIC DATA

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**The Statistical Data are presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic Data are presented to allow a broader understanding of the economic and social environment in which State government operates.**

TABLE I

STATE OF TENNESSEE  
REVENUES BY SOURCE AND TRANSFERS IN  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST TEN YEARS

(Expressed in Thousands)

SOURCES	FOR THE YEAR ENDED JUNE 30									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
TAXES	\$ 5,490,210	\$ 5,624,158	\$ 5,970,140	\$ 6,237,102	\$ 6,604,037	\$ 6,967,790	\$ 7,212,642	\$ 7,778,475	\$ 7,900,810	\$ 7,718,442
LICENSES, FINES, FEES AND PERMITS	290,511	308,797	333,097	345,148	353,516	370,419	392,261	423,614	435,886	460,920
INTEREST ON INVESTMENTS	45,132	43,829	36,580	24,183	19,296	35,977	47,683	53,819	92,127	36,618
FEDERAL	3,867,457	3,976,016	4,209,340	4,335,071	4,636,905	4,831,199	5,124,273	5,537,353	6,184,126	6,694,648
DEPARTMENTAL SERVICES	742,552	921,221	1,198,117	1,258,672	1,034,678	1,129,859	1,282,634	1,512,483	1,748,165	1,607,251
OTHER	17,296	27,794	37,725	21,113	22,624	47,537	40,155	352,183	356,029	444,450
TRANSFERS IN	539,831	510,289	495,467	485,767	580,618	545,432	565,885	472,275	567,901	766,097
TOTAL REVENUES AND TRANSFERS IN- ALL GOVERNMENTAL FUND TYPES	\$ 10,992,989	\$ 11,412,104	\$ 12,280,466	\$ 12,707,056	\$ 13,251,674	\$ 13,928,213	\$ 14,665,533	\$ 16,130,202	\$ 17,285,044	\$ 17,728,426

TABLE II

STATE OF TENNESSEE  
EXPENDITURES BY FUNCTION AND TRANSFERS OUT  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST TEN YEARS

(Expressed in Thousands)

FUNCTION	FOR THE YEAR ENDED JUNE 30									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GENERAL GOVERNMENT	\$ 242,239	\$ 267,918	\$ 290,305	\$ 282,149	\$ 287,635	\$ 289,194	\$ 345,746	\$ 330,255	\$ 349,278	\$ 358,523
EDUCATION	1,916,196	2,087,013	2,283,546	2,368,196	2,535,513	2,731,599	2,859,303	2,947,577	3,059,538	4,218,637
HEALTH AND SOCIAL SERVICES	4,937,396	5,090,588	5,615,339	5,790,343	5,829,651	6,094,595	6,596,034	7,446,923	8,641,777	9,250,026
LAW, JUSTICE AND PUBLIC SAFETY	591,615	670,738	717,364	729,663	694,610	742,714	825,010	872,353	897,805	914,307
RECREATION AND RESOURCE DEVELOPMENT	274,829	335,484	355,166	365,586	385,673	372,119	382,614	429,389	419,423	446,137
REGULATION OF BUSINESS AND PROFESSIONS	29,917	31,149	34,922	36,919	41,598	41,402	46,346	49,325	57,988	65,040
TRANSPORTATION	871,901	878,547	1,003,796	1,023,381	1,079,683	1,145,536	1,164,776	1,271,170	1,269,773	1,311,654
STATE SHARED TAXES PAID TO LOCAL GOVERNMENTS	465,841	504,547	534,641	550,633	572,821	607,070	629,904	653,989	681,151	686,515
DEBT SERVICE	81,872	89,174	93,400	94,575	92,286	100,556	111,530	123,783	122,221	123,707
CAPITAL OUTLAY	53,258	124,978	164,059	98,335	79,769	121,651	105,889	70,866	55,679	145,590
TRANSFERS OUT	1,353,442	1,367,157	1,471,327	1,518,869	1,651,160	1,563,095	1,693,625	1,619,425	1,748,989	787,813
TOTAL EXPENDITURES AND TRANSFERS OUT - ALL GOVERNMENTAL FUND TYPES	\$ 10,818,506	\$ 11,447,293	\$ 12,563,865	\$ 12,858,649	\$ 13,250,399	\$ 13,809,531	\$ 14,760,777	\$ 15,815,055	\$ 17,303,622	\$ 18,307,949

Note: The Governmental Fund Types include General, Education, Highway, Special Revenue, Debt Service, Capital Projects and Permanent Funds.

TABLE III

STATE OF TENNESSEE  
TAX REVENUES BY SOURCE  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST TEN YEARS

(Expressed in Thousands)

TAX REVENUE	FOR THE YEAR ENDED JUNE 30									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
SALES AND USE	\$ 2,734,802	\$ 3,070,109	\$ 3,475,229	\$ 3,681,461	\$ 3,904,964	\$ 4,099,928	\$ 4,346,209	\$ 4,600,658	\$ 4,643,337	\$ 4,647,768
SERVICES	562,971	299,232	513	424						
GASOLINE	504,441	537,419	543,170	551,347	558,629	579,162	584,249	576,640	569,422	575,349
MOTOR FUEL	104,320	109,003	120,876	125,177	125,397	131,632	140,887	152,771	173,418	151,034
PETROLEUM PRODUCTS	34,354	37,586	39,384	39,209	39,132	40,289	41,614	60,432	61,487	61,624
INCOME	95,085	100,513	101,285	114,750	128,273	161,304	160,352	179,904	199,397	171,073
PRIVILEGE	98,525	117,083	115,122	130,135	139,019	150,564	166,074	177,244	181,175	205,029
GROSS RECEIPTS	166,657	165,600	180,012	175,878	188,202	188,808	197,542	213,147	229,210	230,582
ALCOHOLIC BEVERAGE	64,128	65,470	66,201	67,595	69,869	71,522	74,736	77,221	79,854	81,616
FRANCHISE	229,322	249,974	273,519	280,056	399,482	313,342	318,666	519,879	467,900	428,590
EXCISE	376,184	418,809	516,052	537,597	493,785	592,848	572,567	563,163	634,902	537,711
INHERITANCE AND ESTATE	58,885	44,476	55,665	60,356	58,970	121,847	83,198	94,704	89,676	104,481
TOBACCO	78,939	79,992	85,160	85,371	85,449	86,093	84,492	82,540	82,814	85,596
INSURANCE COMPANIES PREMIUMS	144,705	159,855	211,302	204,557	224,099	243,355	242,849	271,194	280,561	265,473
MEDICAID PROVIDER	177,055	105,833	115,263	110,853	115,755	118,885	117,366	116,190	115,909	100,976
OTHER	59,837	63,204	71,387	72,336	73,012	68,211	81,841	92,788	91,748	71,540
TOTAL TAX REVENUES- ALL GOVERNMENTAL FUND TYPES	\$ <u>5,490,210</u>	\$ <u>5,624,158</u>	\$ <u>5,970,140</u>	\$ <u>6,237,102</u>	\$ <u>6,604,037</u>	\$ <u>6,967,790</u>	\$ <u>7,212,642</u>	\$ <u>7,778,475</u>	\$ <u>7,900,810</u>	\$ <u>7,718,442</u>

STATE OF TENNESSEE  
DESCRIPTION OF TAX SOURCES  
ALL GOVERNMENTAL FUND TYPES  
JUNE 30, 2002

Presented below is a brief description of the state's principal tax sources as shown in the preceding table.

**SALES AND USE TAX** – The retail sales and use tax, imposed in 1947, is the state's leading source of revenue. The current rate of 6.0% was made effective April 1992. The tax is applied to the sale, use, consumption, distribution, lease or rental of tangible personal property and certain services and, effective June 1, 1985, was extended to include most admission and amusement charges. Political subdivisions, governmental agencies, charitable and religious groups, non-profit organizations and certain items of tangible personal property, including drugs, are exempt.

**SERVICES TAX** – The services tax was enacted as of July 1, 1992. Vendors are taxed at a rate of 6.75% for services provided such as repairs to equipment, installation of equipment and certain other specific services. This act repeals the state and local use tax on services and amusements as well as exempting certain services from the tax altogether. The services tax expired December 31, 1993.

**GASOLINE TAX** – The gasoline tax was first enacted in 1923. The tax was increased to 20 cents per gallon on July 1, 1989, and is charged on each gallon of gasoline or distillate refined, manufactured, sold, stored or distributed in Tennessee, as well as gasoline or distillate imported into the state. Refunds are granted on gasoline used for agricultural purposes, while political subdivisions and governmental agencies are exempt.

**MOTOR FUEL TAX** – The motor fuel tax was enacted in 1941. The tax was imposed on the sale of diesel fuel and as of April 1, 1990 the current rate is 17 cents per gallon. Effective July 1, 1984, a tax was levied on motor vehicles powered by liquified gas at rates ranging from \$70 for passenger cars to \$114 for the largest trucks. Owners of commercial vehicles may be charged additional tax based on number of miles driven in Tennessee. Effective April 1, 1989, out of state residents are taxed at a rate of 14 cents per gallon of liquified gas.

**SPECIAL PETROLEUM PRODUCTS TAX** – The special Petroleum Products Tax (formerly Gasoline Inspection Fee) was first enacted in 1899 for the purpose of assuring that gasoline and oil sold in the state met certain minimum standards. The rate was 1 cent per gallon in 1989 and went to 1.4 cents per gallon on May 1, 1990 on volatile substances having certain gravity levels which are produced from petroleum, natural gas, oil shales, or coal.

**INCOME TAX** – Although Tennessee does not levy a general personal income tax, income derived from dividends and interest on stocks and bonds has been subject to tax since 1929. The tax rate is 6% on dividends from stocks, and interest on bonds, subject to an exemption of \$1,250 for individuals and \$2,500 for joint tax returns. Blind persons, pension trusts, profit-sharing trusts and qualifying low income persons 65 years of age or older are exempt from the tax.

**PRIVILEGE TAX** – The first state privilege tax in Tennessee was levied in 1799. During the ensuing 150 years, 132 business activities were made subject to the tax. Virtually all of these business-related privilege taxes were abolished in 1971 and re-enacted as part of other taxes. Currently, the privilege tax base is provided from litigation taxes, realty transfer, mortgage taxes, marriage license fees, professional taxes, tire taxes, auto rental taxes, bail bond fees, and auto oil tax.

**GROSS RECEIPTS TAXES** – There have been numerous additions, deletions and alterations in the group of taxable privileges comprising the gross receipts tax since it was first imposed in 1937. Currently, the tax covers bottlers, mixing bars, utilities, firearms, and vending machines. TVA payments "in lieu of taxes" based on power sales in Tennessee make up over 75% of collections.

**ALCOHOLIC BEVERAGE TAX** – The alcoholic beverage tax was enacted in 1939, authorizing the sale of alcoholic beverages in counties and municipalities in Tennessee if approved by local referendum. It provided for a system of state licensing fees and established a gallonage tax on wines and liquors sold in the state. Currently, the tax is levied at the rate of \$4.00 per gallon on distilled spirits and \$1.10 per gallon on wines, with additional fees for regulatory purposes and for the insurance of licenses and permits.

**FRANCHISE TAX** – The franchise tax, first collected in 1937, imposes an annual tax for the privilege of engaging in business in the form of a corporation, Limited Liability Corporation and Limited Liability Partnership in the state. The tax is levied at the rate of \$.25 per \$100 of corporate stock, surplus and undivided profits of domestic and foreign corporations operating in Tennessee.

**EXCISE TAX** – The excise tax originated in 1923 and has always been a major revenue source. The tax is presently applied at the rate of 6% on annual net earnings or the larger of stock or real and tangible property from business corporations, co-operatives conducted for profit, joint stock associations, business trusts, state banks, national banks and savings and loan associations.

**INHERITANCE, ESTATE AND GIFT TAXES** – The inheritance tax was first enacted in 1891. Originally, the tax was applicable only to property going to collateral heirs, but was extended to direct heirs in 1909. The tax applies to all property, real and personal, with certain exemptions.

**TOBACCO TAXES** – Tobacco taxes were first levied in 1925. The present tax equates to 13 cents per pack of 20 cigarettes and 6% of the wholesale cost for all other tobacco products.

**INSURANCE COMPANY PREMIUM TAX** – This tax, first enacted in 1945, is applied to gross premiums paid by or for policyholders residing in this state or on property located in the state. The rate is 1.75% for domestic life insurance companies, 2% for foreign life insurance companies, 2.5% for property and casualty insurance companies and 4% workers compensation premiums.

**MEDICAID PROVIDER TAX** – The Hospital Medicaid Provider Tax has been in effect since July 1, 1989. The tax is directly proportional to the hospital's Medicaid utilization rate, low income utilization rate, or large volume of Medicaid days per year. The Nursing Home Medicaid Provider Tax, which has been in effect since July 1, 1990, is based on the number of licensed beds physically located in the state.

STATE OF TENNESSEE  
RATIO OF NET GENERAL LONG-TERM DEBT TO  
ASSESSED VALUE AND NET DEBT PER CAPITA  
FOR THE LAST TEN YEARS

TABLE IV

(Expressed in Thousands except Ratio and Per Capita Data)

FOR THE YEAR ENDED JUNE 30	POPULATION	ASSESSED VALUE	TOTAL (NOTE)	GENERAL LONG-TERM DEBT LESS DEBT SERVICE FUND	NET	NET GENERAL LONG-TERM DEBT RATIO TO ASSESSED VALUE	PER CAPITA
1993	5,094	\$ 49,593,000	\$ 599,653	\$ 5,399	\$ 594,254	1.20%	\$ 116.66
1994	5,176	51,686,000	632,506	4,336	628,170	1.22%	121.36
1995	5,256	53,915,000	669,061	5,217	663,844	1.23%	126.30
1996	5,327	56,072,000	712,020	961	711,059	1.27%	133.48
1997	5,398	61,648,000	881,983	4,531	877,452	1.42%	162.55
1998	5,470	71,292,000	919,670	4,356	915,314	1.28%	167.33
1999	5,524	75,561,000	1,073,097	1,335	1,071,762	1.42%	194.02
2000	5,750	78,568,000	1,068,019	2,750	1,065,269	1.36%	185.26
2001	5,776	89,194,000	1,139,224	3,407	1,135,817	1.27%	196.64
2002	5,802 (EST)	96,561,000 (EST)	1,081,269	4,527	1,076,742	1.12%	185.58

NOTE: Total General Long-term debt does not include State Loan Program and Facilities Revolving Fund  
General Obligation Bonds, Notes and Commercial Paper as follows:

YEAR	BONDS, NOTES AND COMMERCIAL PAPER
1993	\$ 120,422
1994	209,422
1995	232,276
1996	210,684
1997	208,006
1998	212,239
1999	190,604
2000	184,549
2001	177,445
2002	178,236

These obligations are reported as debt of those enterprises in the accompanying financial statements.

TABLE V

STATE OF TENNESSEE  
COMPUTATION OF LEGAL DEBT SERVICE MARGIN  
JUNE 30, 2002

(Expressed in Thousands)

LEGAL DEBT SERVICE LIMIT (2002 PLEDGED REVENUES OF \$768,696/150%)	\$ 512,464
LESS - 2002 DEBT SERVICE REQUIRED ON ALL GENERAL LONG-TERM DEBT, INCLUDING STATE LOAN PROGRAM AND FACILITIES REVOLVING FUND GENERAL OBLIGATION BONDS	<u>142,075</u>
LEGAL DEBT SERVICE MARGIN	<u><u>\$ 370,389</u></u>

COLLECTIONS FOR FISCAL YEAR 2002			
	PORTION PLEDGED	ALL GOVERNMENTAL FUND TYPES	PLEDGED AMOUNT
CALCULATION OF 2002 PLEDGED REVENUES AS ABOVE:			
GASOLINE TAX	29.3 %	\$ 575,349	\$ 168,577
PETROLEUM PRODUCTS FEE	ALL	61,624	61,624
MOTOR VEHICLE REGISTRATION FEE	ONE-HALF	219,809	109,905
FRANCHISE TAX	ALL	<u>428,590</u>	<u>428,590</u>
TOTALS		<u><u>\$ 1,285,372</u></u>	<u><u>\$ 768,696</u></u>

NOTE: Pledged revenues for the last five years are shown below:

FISCAL YEAR	PLEDGED REVENUES	PERCENT INCREASE (DECREASE)
1998	\$ 621,159	(10.5)
1999	632,040	1.8
2000	870,302	37.7
2001	802,023	(7.8)
2002	768,696	(4.2)

TABLE VI

STATE OF TENNESSEE  
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL  
LONG-TERM DEBT TO TOTAL EXPENDITURES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST TEN FISCAL YEARS

(Expressed in Thousands except for Ratio Data)

FOR THE YEAR ENDED JUNE 30	DEBT SERVICE	TOTAL EXPENDITURES	RATIO
1993	\$ 81,872	\$ 8,999,223	0.91
1994	89,174	9,575,589	0.93
1995	93,400	10,557,897	0.88
1996	94,575	10,789,147	0.88
1997	92,286	11,026,418	0.84
1998	100,556	11,639,366	0.86
1999	111,530	12,437,248	0.90
2000	123,783	13,541,641	0.91
2001	122,221	15,554,633	0.79
2002	123,707	17,520,136	0.71

TABLE VII

STATE OF TENNESSEE  
SCHEDULE OF REVENUE BOND COVERAGE  
COMPONENT UNITS  
TENNESSEE HOUSING DEVELOPMENT AGENCY FUND  
FOR THE LAST TEN YEARS

(Expressed in Thousands except for Coverage)

FOR THE YEAR ENDED JUNE 30	DEDICATED REVENUES	RELATED EXPENSES	NET AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENTS	COVERAGE
1993	\$ 163,360	\$ 4,908	\$ 158,452	\$ 147,888	1.07
1994	137,447	4,567	132,880	115,380	1.15
1995	133,765	4,518	129,247	106,750	1.21
1996	141,056	4,779	136,277	113,969	1.20
1997	197,309	5,041	192,268	162,327	1.18
1998	332,821	4,784	328,037	294,861	1.11
1999	308,454	4,843	303,611	271,574	1.12
2000	248,647	5,836	242,811	208,377	1.17
2001	257,258	6,070	251,188	218,726	1.15
2002	180,894	7,360	173,534	138,870	1.25

STATE OF TENNESSEE  
SCHEDULE OF REVENUE BOND COVERAGE  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS  
FOR THE LAST TEN YEARS

(Expressed in Thousands except for Coverage)

FOR THE YEAR ENDED JUNE 30	FEES AND CHARGES	TENNESSEE STATE SCHOOL BOND AUTHORITY	OTHER THAN AUTHORITY	TOTAL	COVERAGE
1993	\$ 744,791	\$ 30,294	\$ 568	\$ 30,862	24.1
1994	782,382	30,385	512	30,897	25.3
1995	790,912	30,894	504	31,398	25.2
1996	817,675	30,858	503	31,361	26.1
1997	857,538	30,526	275	30,801	27.8
1998	892,609	38,166	272	38,438	23.2
1999	957,451	38,155	201	38,356	25.0
2000	767,749	35,470	784	36,254	21.2
2001	827,686	33,454	498	33,952	24.4
2002	886,804	45,616	488	46,104	19.2

STATE OF TENNESSEE  
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS  
FOR THE LAST TEN YEARS

(Expressed in Thousands)

UNIVERSITY OF TENNESSEE

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 469,932	\$ 304,279	\$ 58	\$ 24,560
1994	497,370	322,443	21	21,245
1995	555,363	359,941	21	21,692
1996	563,302	369,853	21	21,749
1997	587,138	374,249	21	26,891
1998	592,661	367,938	21	28,657
1999	622,109	373,207	21	24,431
2000	410,086	375,872	21	16,872
2001	401,918	408,671	21	18,628
2002	438,956	406,146	21	24,804

AUSTIN PEAY STATE UNIVERSITY

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 16,776	\$ 19,791	\$ 27	\$ 540
1994	17,785	22,064	41	540
1995	17,722	24,610	48	535
1996	18,235	25,209	48	535
1997	19,178	25,733	48	641
1998	20,420	25,559	48	672
1999	23,188	27,444	48	651
2000	24,288	28,001	48	649
2001	26,555	28,051	48	649
2002	22,130	29,602	48	1,516

EAST TENNESSEE STATE UNIVERSITY

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 29,830	\$ 55,568		\$ 1,659
1994	30,825	59,911		1,661
1995	46,563	65,530		1,636
1996	49,502	67,549		1,636
1997	53,232	68,469		1,597
1998	57,826	67,202		1,588
1999	64,652	70,814		1,743
2000	64,386	72,837	\$ 258	1,954
2001	59,516	75,937	261	1,916
2002	65,342	77,965	261	2,608

UNIVERSITY OF MEMPHIS

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 60,375	\$ 77,614		\$ 2,369
1994	60,537	82,765		2,450
1995	67,576	88,120		2,444
1996	72,587	90,400		2,451
1997	75,167	91,212		2,889
1998	80,625	89,924		2,991
1999	93,593	93,576		3,054
2000	102,186	94,289		2,353
2001	114,031	97,499		3,777
2002	120,196	99,786		6,334

MIDDLE TENNESSEE STATE UNIVERSITY

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 38,140	\$ 48,948		\$ 1,177
1994	41,194	54,830		1,177
1995	49,083	60,371		1,164
1996	54,128	61,920		1,166
1997	57,341	63,529		1,668
1998	62,814	64,469		1,872
1999	70,530	70,576		3,357
2000	78,317	73,273		4,886
2001	86,328	76,159		5,472
2002	98,031	77,990		6,537

TENNESSEE STATE UNIVERSITY

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 19,973	\$ 26,280	\$ 137	\$ 1,111
1994	21,084	28,067	135	1,111
1995	26,481	30,567	135	1,015
1996	31,231	31,477	135	1,100
1997	34,352	32,227	135	1,157
1998	39,141	32,052	135	1,257
1999	46,423	35,597	66	1,470
2000	52,156	36,337	66	2,056
2001	54,979	34,843	66	2,193
2002	45,119	35,067		3,137

TENNESSEE TECHNOLOGICAL UNIVERSITY

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 23,747	\$ 33,142		\$ 1,162
1994	24,288	35,358		1,181
1995	26,204	37,473		1,178
1996	26,110	38,452		1,173
1997	27,208	38,164		1,150
1998	28,831	37,699		1,145
1999	31,616	39,259		1,075
2000	33,791	38,938		844
2001	37,065	43,568		639
2002	41,311	40,392		415

ROANE STATE COMMUNITY COLLEGE

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 4,423	\$ 10,956		
1994	4,744	12,076		
1995	5,418	13,177		
1996	5,349	13,509		
1997	5,878	13,649		
1998	6,268	13,441		
1999	6,940	14,254		
2000	7,565	14,879	\$ 33	
2001	7,697	15,524	33	
2002	8,589	15,771		

WALTERS STATE COMMUNITY COLLEGE

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 3,955	\$ 9,841		
1994	4,091	10,921		
1995	6,420	12,018		
1996	6,595	12,308		
1997	7,236	12,658		
1998	8,073	13,132		
1999	8,408	14,265		
2000	8,983	14,767	\$ 286	
2001	10,170	15,173		
2002	7,474	15,595	88	

CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 7,186	\$ 14,961	\$ 37	
1994	7,222	16,435	74	
1995	7,961	17,822	71	
1996	8,701	18,284	74	
1997	9,032	18,514	71	
1998	9,818	18,589	68	
1999	10,453	19,602	69	
2000	11,074	20,234	72	
2001	11,650	20,684	69	\$ 34
2002	12,380	21,233	70	73

(continued on next page)



STATE OF TENNESSEE  
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE (continued)  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS  
FOR THE LAST TEN YEARS

(Expressed in Thousands)

SOUTHWEST TENNESSEE COMMUNITY COLLEGE

<u>FISCAL YEAR</u>	<u>TOTAL FEES AND CHARGES</u>	<u>LEGISLATIVE APPROPRIATIONS</u>	<u>PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)</u>	<u>DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)</u>
1993	\$ 7,428	\$ 14,947		
1994	7,967	16,289		
1995	8,334	17,549		
1996	8,641	17,988		
1997	8,876	18,174		
1998	9,368	17,898		
1999	9,991	18,527		\$ 56
2000	10,838	18,464		146
2001	17,777	34,451		146
2002	19,022	35,175		179

NASHVILLE STATE TECHNICAL INSTITUTE

<u>FISCAL YEAR</u>	<u>TOTAL FEES AND CHARGES</u>	<u>LEGISLATIVE APPROPRIATIONS</u>	<u>PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON-AUTHORITY)</u>	<u>DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)</u>
1993	\$ 3,350	\$ 8,602		
1994	3,456	9,010		
1995	4,019	9,585		
1996	4,300	9,716		
1997	4,777	9,677		
1998	5,455	9,864		
1999	6,040	11,092		
2000	6,609	11,749		
2001	7,135	12,168		
2002	8,254	12,525		\$ 13

STATE OF TENNESSEE  
STUDENT FEES AND CHARGES  
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS

TABLE IX

<u>INSTITUTION</u>	<u>DEBT SERVICE FEES</u>	<u>IN-STATE STUDENT TUITION</u>	<u>NON-RESIDENT STUDENT TUITION</u>	<u>AVERAGE BOARD CHARGE</u>	<u>AVERAGE ROOM CHARGE</u>
UNIVERSITY OF TENNESSEE- KNOXVILLE	\$ 74	\$ 3,784	\$ 11,570	\$ 2,152	\$ 2,350
UNIVERSITY OF TENNESSEE- CHATTANOOGA	120	3,236	9,766		4,400
UNIVERSITY OF TENNESSEE- MARTIN	174	3,280	9,810	1,890	1,880
UNIVERSITY OF TENNESSEE- MEMPHIS	54	5,158	15,026		360
AUSTIN PEAY STATE UNIVERSITY	218	2,556	6,472	2,120	3,840
EAST TENNESSEE STATE UNIVERSITY	160	2,556	6,472	1,840	3,300
UNIVERSITY OF MEMPHIS	120	2,556	6,472	3,000	3,820
MIDDLE TENNESSEE STATE UNIVERSITY	190	2,556	6,472	2,140	4,080
TENNESSEE STATE UNIVERSITY	130	2,556	6,472	2,142	4,280
TENNESSEE TECHNOLOGICAL UNIVERSITY	68	2,556	6,472	1,980	3,740
ROANE STATE COMMUNITY COLLEGE		1,488	4,458		
WALTERS STATE COMMUNITY COLLEGE		1,488	4,458		
CHATTANOOGA STATE COMMUNITY COLLEGE		1,488	4,458		
SOUTHWEST TENNESSEE COMMUNITY COLLEGE		1,488	4,458		
NASHVILLE STATE TECHNICAL INSTITUTE		1,488	4,458		

STATE OF TENNESSEE  
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS

TABLE X

<u>INSTITUTION</u>	<u>FIRST PROGRAM BONDS</u>	<u>SECOND PROGRAM BONDS</u>	<u>COMMERCIAL PAPER</u>	<u>NON-AUTHORITY DEBT</u>	<u>TOTAL DEBT</u>
UNIVERSITY OF TENNESSEE	\$ 87,153	\$ 136,734	\$ 7,457	\$ 21	\$ 231,365
AUSTIN PEAY STATE UNIVERSITY	2,860	15,186	1,040	147	19,233
EAST TENNESSEE STATE UNIVERSITY	375	26,081		2,354	28,810
UNIVERSITY OF MEMPHIS	2,761	58,764	118		61,643
MIDDLE TENNESSEE STATE UNIVERSITY	11,649	67,400	1,750		80,799
TENNESSEE STATE UNIVERSITY	7,257	27,618			34,875
TENNESSEE TECHNOLOGICAL UNIVERSITY	101	2,473	1,010		3,584
ROANE STATE COMMUNITY COLLEGE			175		175
WALTERS STATE COMMUNITY COLLEGE			686		686
CHATTANOOGA STATE COMMUNITY COLLEGE		686		70	756
SOUTHWEST TENNESSEE COMMUNITY COLLEGE		1,880			1,880
NASHVILLE STATE TECHNICAL INSTITUTE		98			98
	<u>\$ 112,156</u>	<u>\$ 336,920</u>	<u>\$ 12,236</u>	<u>\$ 2,592</u>	<u>\$ 463,904</u>



STATE OF TENNESSEE  
ECONOMIC CHARACTERISTICS\*

TENNESSEE'S ECONOMIC GROWTH

The economic future for Tennessee remains bright. Characteristics of the state which have been identified as important reasons why firms have chosen Tennessee sites include work-force related factors such as worker productivity, right-to-work laws and low unionization, as well as access to markets and pro-business attitude of the state. Other factors include relatively inexpensive energy, plentiful natural resources and sun-belt location. Tennessee's gross state product as a percentage of gross domestic product increased from 1.77% in 1992 to 1.83% in 2001, and personal income was 1.75% in 1992 and 1.77% in 2001.

(Expressed in Millions)

<u>YEAR</u>	<u>GROSS STATE PRODUCT</u>	<u>PERSONAL INCOME</u>	<u>DISPOSABLE PERSONAL INCOME</u>
1992	\$111,844	\$94,465	\$85,500
1993	119,758	100,394	90,814
1994	129,671	106,855	96,329
1995	136,821	114,260	102,796
1996	142,050	119,287	106,568
1997	151,738	125,456	111,632
1998	161,835	134,282	119,346
1999	170,085	139,434	123,888
2000	180,438	147,753	131,073
2001	186,945 (EST)	154,678 (EST)	136,721 (EST)

TENNESSEE GROSS STATE PRODUCT BY SECTOR

(Expressed in Millions)

	<u>1991</u>	<u>1996</u>	<u>2001 (EST)</u>	<u>SECTOR AS PERCENTAGE OF 2001 TOTAL</u>
MANUFACTURING	\$24,977	\$30,822	\$35,527	19.0%
CONSTRUCTION	3,562	5,921	8,645	4.6%
MINING	389	427	566	0.3%
TRADE	18,195	26,266	34,191	18.3%
SERVICES	18,548	28,986	40,201	21.5%
FINANCE, INSURANCE AND REAL ESTATE	12,945	19,436	27,561	14.7%
TRANSPORTATION, COMMUNICATION AND PUBLIC UTILITIES	8,221	11,427	16,172	8.7%
FEDERAL GOVERNMENT	5,178	5,575	6,991	3.7%
STATE & LOCAL GOVERNMENT	8,584	11,619	15,355	8.2%
AGRICULTURE	1,449	1,571	1,736	0.9%
TOTAL GROSS STATE PRODUCT	<u>\$102,048</u>	<u>\$142,050</u>	<u>\$186,945</u>	<u>100.0%</u>

\* Except as otherwise noted, the source for all economic information presented is An Economic Report to the Governor of the State of Tennessee on the State's Economic Outlook (January 2002) developed by the Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville. The source for disposable personal income is the U.S. Department of Commerce, Bureau of Economic Analysis.

TENNESSEE AVERAGE ANNUAL WAGE BY SECTOR

	<u>1991</u>	<u>1996</u>	<u>2001 (EST)</u>	PERCENTAGE CHANGE (From 1991 to 2001)
MANUFACTURING	\$25,481	\$31,024	\$37,957	49.0%
CONSTRUCTION	24,159	28,754	34,272	41.9%
MINING	28,414	37,960	45,168	59.0%
TRADE	16,621	20,086	24,570	47.8%
SERVICES	21,481	25,068	31,022	44.4%
FINANCE, INSURANCE AND REAL ESTATE	26,404	34,368	45,171	71.1%
TRANSPORTATION, COMMUNICATION AND PUBLIC UTILITIES	29,957	33,110	38,801	29.5%
FEDERAL GOVERNMENT	33,972	42,451	48,962	44.1%
STATE & LOCAL GOVERNMENT	19,913	23,495	27,746	39.3%
AGRICULTURE	8,778	10,979	12,863	46.5%
AVERAGE ALL SECTORS	\$23,518	\$28,730	\$34,653	47.3%

TENNESSEE EMPLOYMENT BY SECTOR

(Expressed in Thousands)

	<u>1991</u>	<u>1996</u>	<u>2001 (EST)</u>	PERCENTAGE CHANGE (From 1991 to 2001)
MANUFACTURING	502.7	519.3	488.7	-2.8%
CONSTRUCTION	86.5	113.1	129.6	49.8%
MINING	5.5	4.6	4.0	-27.3%
TRADE	511.6	594.4	656.2	28.3%
SERVICES	505.2	658.7	762.3	50.9%
FINANCE, INSURANCE AND REAL ESTATE	101.6	116.5	130.8	28.7%
TRANSPORTATION, COMMUNICATION AND PUBLIC UTILITIES	117.4	145.2	180.8	54.0%
FEDERAL GOVERNMENT	61.7	54.1	54.4	-11.8%
STATE & LOCAL GOVERNMENT	291.5	327.5	346.8	19.0%
AGRICULTURE	13.2	11.3	11.0	-16.7%
TOTAL ALL SECTORS	<u>2,196.9</u>	<u>2,544.7</u>	<u>2,764.6</u>	25.8%

## MANUFACTURING

Manufacturing investment in Tennessee totaled \$4.0 billion in 2001, marking the nineteenth consecutive billion dollar year for the state. The combined new plant and expansion projects announced are expected to create 15,804 new job opportunities. The tables which follow indicate the state's manufacturing gross product, employment and industrial expansion.

### TENNESSEE MANUFACTURING GROSS PRODUCT

(Expressed in Millions)

	1991	1996	2001 (EST)	PERCENTAGE CHANGE (FROM 1991 TO 2001)
DURABLES:				
FURNITURE & FIXTURES	\$ 785	\$ 979	\$ 1,286	63.8%
FABRICATED METALS	2,171	2,785	3,580	64.9%
NONELECTRICAL MACHINERY	1,749	2,386	3,546	102.7%
ELECTRICAL MACHINERY	1,878	2,050	2,396	27.6%
TRANSPORTATION EQUIPMENT	2,005	4,691	4,802	139.5%
OTHER	3,508	4,650	5,866	67.2%
TOTAL DURABLES	12,096	17,541	21,476	77.5%
NONDURABLES:				
FOOD	3,030	2,700	3,313	9.3%
TEXTILES	574	728	722	25.8%
APPAREL	1,422	1,019	473	-66.7%
PAPER	1,355	1,454	1,632	20.4%
PRINTING & PUBLISHING	1,417	1,533	1,772	25.1%
CHEMICALS	3,285	3,854	3,455	5.2%
RUBBER & PLASTICS	1,308	1,584	1,966	50.3%
OTHER	490	410	718	46.5%
TOTAL NONDURABLES	12,881	13,282	14,051	9.1%
TOTALS	\$ 24,977	\$ 30,823	\$ 35,527	42.2%

### TENNESSEE MANUFACTURING EMPLOYMENT

(Expressed in Thousands)

	1991	1996	2001 (EST)	PERCENTAGE CHANGE (FROM 1991 TO 2001)
DURABLES:				
FURNITURE & FIXTURES	26.1	28.5	24.7	-5.4%
FABRICATED METALS	41.7	43.7	45.4	8.9%
NONELECTRICAL MACHINERY	35.4	43.0	49.0	38.4%
ELECTRICAL MACHINERY	35.5	40.3	37.7	6.2%
TRANSPORTATION EQUIPMENT	41.3	52.2	53.8	30.3%
OTHER	68.7	77.2	77.4	12.7%
TOTAL DURABLES	248.7	284.9	288.0	15.8%
NONDURABLES:				
FOOD	37.3	35.5	40.3	8.0%
TEXTILES	20.2	19.4	14.4	-28.7%
APPAREL	60.6	41.9	19.5	-67.8%
PAPER	21.6	21.6	21.4	-0.9%
PRINTING & PUBLISHING	37.0	38.8	37.9	2.4%
CHEMICALS	39.2	37.1	28.1	-28.3%
RUBBER & PLASTICS	27.7	33.6	33.9	22.4%
OTHER	10.6	6.5	5.2	-50.9%
TOTAL NONDURABLES	254.2	234.4	200.7	-21.0%
TOTALS	502.9	519.3	488.7	-2.8%

# INDUSTRIAL GROWTH IN TENNESSEE

## NEW PLANTS AND EXPANSIONS

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
NUMBER:										
NEW	72	60	81	80	105	80	63	80	66	56
EXPANSIONS	957	1,013	886	864	703	961	1,290	1,041	1,065	825
	1,029	1,073	967	944	808	1,041	1,353	1,121	1,131	881
INVESTMENT										
(In Thousands):										
NEW	\$210,362	\$178,234	\$694,517	\$1,005,577	\$571,098	\$463,844	\$270,164	\$754,807	\$539,320	\$527,879
EXPANSION	1,917,229	1,875,672	1,787,295	2,254,233	3,232,541	2,400,932	3,035,618	2,960,216	4,413,085	3,508,749
	\$2,127,591	\$2,053,906	\$2,481,812	\$3,259,810	\$3,803,639	\$2,864,776	\$3,305,782	\$3,715,023	\$4,952,405	\$4,036,628
JOB OPPORTUNITIES:										
NEW	4,534	5,515	9,538	4,862	8,588	4,904	3,310	6,410	5,636	3,964
EXPANSIONS	20,030	18,306	16,779	12,485	14,321	14,639	19,793	20,256	21,377	11,840
	24,564	23,821	26,317	17,347	22,909	19,543	23,103	26,666	27,013	15,804

## TOP FIFTY TENNESSEE COMPANIES

(Ranked by Number of Employees in Tennessee)

COMPANY	NUMBER OF EMPLOYEES	COMPANY	NUMBER OF EMPLOYEES
1. WAL-MART ASSOCIATES, INC.	32,000	26. BLUE CROSS BLUE SHIELD OF TN	4,300
2. FEDERAL EXPRESS INC.	30,000	27. UT-BATTELLE (RESEARCH)	4,200
3. KROGER LIMITED PARTNERSHIP, INC.	15,500	28. NATIONAL HEALTH CORP.	4,100
4. VANDERBILT UNIVERSITY /HOSPITAL	13,700	29. GOODYEAR TIRE & RUBBER COMPANY	4,100
5. EASTMAN CHEMICAL COMPANY	11,100	30. CENTENNIAL MEDICAL CENTER (HCA)	4,032
6. UNITED PARCEL SERVICE	8,600	31. THE GAP, INC.	4,000
7. SATURN CORPORATION	8,400	32. FOOD LION, INC	3,900
8. METHODIST HEALTH CARE MEMPHIS	7,900	33. BI-LO LP	3,700
9. U. S. XPRESS, INC.	7,300	34. BRIDGESTONE/FIRESTONE CORPORATION	3,700
10. NISSAN MOTOR MFG. CORP. USA	6,300	35. UNION PLANTERS BANK NATIONAL ASSOC.	3,700
11. SEARS ROEBUCK AND COMPANY	6,200	36. M S CARRIERS INC.	3,600
12. GAYLORD ENTERTAINMENT CO	6,100	37. WELLMONT HEALTH SYSTEM	3,600
13. K-MART CORPORATION	5,900	38. WALGREEN CO.	3,600
14. RANDSTAD STAFFING SVCS, USA INC.	5,900	39. CONNECTICUT GENERAL LIFE INSURANCE	3,600
15. BELL SOUTH TELECOMMUNICATIONS INC.	5,800	40. LOWE'S HOME CENTERS INC.	3,600
16. FIRST TENNESSEE BANK	5,700	41. TN LIMITED PARTNERS	3,400
17. UT-BATTELLE (FACILITIES SUPPORT SERVICES	5,500	42. INTERNATIONAL PAPER CO.	3,400
18. HCA - THE HEALTHCARE CO	4,998	43. HOME DEPOT CO.	3,400
19. J. C. PENNEY CO. INC.	4,900	44. ST. THOMAS HOSPITAL	3,300
20. BAPTIST MEMORIAL HOSPITAL	4,900	45. MCKEE FOODS CORP.	3,300
21. CARSON PIRIE HOLDINGS (SAKS)	4,900	46. STAFFMARK INC.-NASHVILLE	3,300
22. CRACKER BARREL OLD COUNTRY STORES	4,700	47. MAYTAG CORPORATION	3,300
23. AMSOUTH BANCORP	4,600	48. E. I. DUPONT DE NEMOURS & CO.	3,300
24. COVENANT TRANSPORT INC.	4,400	49. CARRIER CORP. (COLLIERVILLE)	3,200
25. K-VA-T FOOD STORES INC.	4,400	50. HARDEE'S FOOD SYSTEMS, INC.	3,200

SOURCE: Tennessee Department of Economic and Community Development.

## AGRICULTURE

Important export commodities such as soybeans, tobacco, feed grains, cotton, and greenhouse and nursery products are among the top income earners for Tennessee farmers.

### CASH RECEIPTS

(Expressed in Millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 (EST)
CROPS	\$1,092.0	\$1,063.9	\$1,199.9	\$1,227.8	\$1,374.1	\$1,245.2	\$1,166.1	\$956.5	\$1,006.9	\$1,033.9
MEAT ANIMALS	542.5	482.3	498.4	420.2	463.0	485.4	435.7	423.1	477.4	455.5
DAIRY PRODUCTS	260.8	250.2	247.4	239.4	253.6	225.6	236.9	222.8	193.2	215.5
POULTRY AND EGGS	166.2	199.8	197.0	203.4	251.7	256.8	306.1	294.5	258.4	395.3
	<u>\$2,061.5</u>	<u>\$1,996.2</u>	<u>\$2,142.7</u>	<u>\$2,090.8</u>	<u>\$2,342.4</u>	<u>\$2,213.0</u>	<u>\$2,144.8</u>	<u>\$1,896.9</u>	<u>\$1,935.9</u>	<u>\$2,100.2</u>

### POPULATION AND EMPLOYMENT TREND

The state's population has grown steadily in recent history by over one-half of 1% per year.

(Expressed in Thousands except Unemployment Rates)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 (EST)
POPULATION	5,020	5,094	5,176	5,256	5,327	5,398	5,470	5,524	5,750	5,776
AVERAGE LABOR FORCE	2,455	2,500	2,663	2,712	2,759	2,708	2,760	2,819	2,798	2,818
AVERAGE TOTAL EMPLOYMEN	2,298	2,357	2,536	2,571	2,623	2,562	2,644	2,705	2,688	2,692
AVERAGE UNEMPLOYMENT	158	144	127	141	136	146	116	114	110	126
TN UNEMPLOYMENT RATE	6.4%	5.7%	4.8%	5.2%	5.2%	5.4%	4.2%	4.0%	3.9%	4.5%
U.S. UNEMPLOYMENT RATE	7.5%	6.9%	6.1%	5.6%	5.4%	5.0%	4.5%	4.2%	4.0%	4.8%

### BANK DEPOSITS, SALES AND EFFECTIVE BUYING INCOME

(Expressed in Millions)

(Expressed  
in Thousands)

<u>YEAR</u>	<u>BANK DEPOSITS</u>	<u>SALES</u>	<u>EFFECTIVE BUYING INCOME MEDIAN HOUSEHOLD</u>
1992	44,105	45,473	28.5
1993	46,596	49,112	30.1
1994	48,531	53,778	31.8
1995	52,321	57,943	29.1
1996	57,219	60,689	39.4
1997	54,302	66,079	31.5
1998	76,542	66,389	32.0
1999	64,966	72,341	33.6
2000	62,113	74,595	34.6
2001	73,051	74,492	34.0

### NEW PRIVATELY OWNED HOUSING UNITS AUTHORIZED IN PERMIT-ISSUING PLACES VALUATION OF BUILDING PERMITS ISSUED

(Expressed in Thousands)

<u>YEAR</u>	<u>VALUATION</u>	<u>YEAR</u>	<u>VALUATION</u>
1992	1,779,702	1997	3,103,939
1993	2,171,097	1998	3,613,835
1994	2,538,773	1999	3,835,303
1995	2,838,290	2000	3,377,629
1996	3,334,419	2001	3,540,178

SOURCE: The Tennessee Econometric Model, Tennessee Department of Labor and Workforce Development Labor Summary, Sales and Marketing Management, Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Tennessee Agricultural Statistics Service Cash Receipts Estimates and Tennessee Department of Financial Institutions Annual Report.



POPULATION, TAX BASE AND PERSONAL INCOME

(Expressed in Thousands)

<u>YEAR</u>	<u>POPULATION</u>	<u>ASSESSED VALUE</u>	<u>APPRAISED/ ESTIMATED CURRENT VALUE</u>	<u>PERSONAL INCOME</u>	<u>PER CAPITA INCOME</u>
1992	5,020	44,672,000	162,609,000	94,465,000	18.8
1993	5,094	49,593,000	170,264,000	100,394,000	19.7
1994	5,176	51,686,000	176,895,000	106,855,000	20.6
1995	5,256	53,915,000	191,993,000	114,260,000	21.7
1996	5,327	56,072,000	207,352,000	119,287,000	22.4
1997	5,398	61,648,000	228,083,000	125,456,000	23.2
1998	5,470	71,292,000	249,897,000	134,282,000	24.5
1999	5,524	75,561,000	270,007,000	139,434,000	25.2
2000	5,750	78,568,000	290,633,000	147,753,000	25.7
2001	5,776	89,194,000 (EST)	313,276,000 (EST)	154,678,000 (EST)	26.8

PUBLIC SCHOOL ENROLLMENT GRADES K-12

<u>ACADEMIC YEAR</u>	<u>GRADES K-3</u>	<u>GRADES 4-6</u>	<u>GRADES 7-9</u>	<u>GRADES 10-12</u>	<u>TOTAL K-12</u>
1992-93	287,687	210,294	213,561	174,909	886,451
1993-94	294,876	212,082	219,896	177,743	904,597
1994-95	300,440	213,703	222,982	179,552	916,677
1995-96	308,006	215,579	225,154	180,969	929,708
1996-97	316,094	217,823	226,287	183,852	944,056
1997-98	320,784	221,651	227,097	187,172	956,704
1998-99	314,781	221,913	226,859	187,313	950,866
1999-2000	317,830	232,230	232,616	191,050	973,726
2000-2001	311,184	234,407	230,094	190,849	966,534
2001-2002	297,072	228,790	225,930	187,110	938,902

HIGHER EDUCATION ENROLLMENT

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
UNIVERSITIES:										
AUSTIN PEAY STATE	5,709	5,992	5,740	5,763	6,072	5,968	5,816	5,721	5,671	5,769
EAST TENNESSEE STATE	9,667	9,321	9,312	9,355	9,450	9,549	9,792	9,638	9,364	9,507
MIDDLE TENNESSEE STATE	14,239	14,629	14,226	14,504	14,916	15,455	15,655	16,173	16,339	17,125
TENNESSEE STATE	5,957	6,110	6,438	6,787	7,007	7,168	7,383	7,629	7,431	7,425
TENNESSEE TECHNOLOGICAL	7,473	7,472	7,353	7,303	7,230	7,287	7,112	7,227	7,212	7,327
UNIVERSITY OF MEMPHIS*	15,254	15,317	15,177	15,495	15,001	15,452	15,771	15,909	15,613	15,890
UNIVERSITY OF TENNESSEE:										
CHATTANOOGA	6,375	6,515	6,438	6,540	6,608	6,816	7,040	7,019	6,832	6,955
KNOXVILLE	22,065	21,696	21,575	21,454	21,528	21,819	22,476	23,277	22,960	23,183
MARTIN	5,333	5,313	5,308	5,497	5,376	5,607	5,480	5,278	5,324	5,379
TOTAL UNIVERSITIES	92,072	92,365	91,567	92,698	93,188	95,121	96,525	97,871	96,746	98,560
COMMUNITY COLLEGES:										
CHATTANOOGA STATE TECH	5,369	5,214	5,144	4,982	5,427	5,227	5,140	5,038	4,832	5,269
CLEVELAND STATE	2,234	2,151	1,929	2,204	2,111	2,376	2,176	2,158	2,083	2,318
COLUMBIA STATE	2,361	2,255	2,331	2,501	2,639	2,820	2,947	2,906	2,788	2,984
DYERSBURG STATE	1,289	1,357	1,380	1,373	1,531	1,533	1,522	1,435	1,563	1,577
JACKSON STATE	2,188	2,143	2,088	2,155	2,223	2,328	2,416	2,548	2,514	2,658
MOTLOW STATE	2,150	2,117	2,133	2,077	2,116	2,287	2,273	2,221	2,199	2,441
NORTHEAST STATE TECH	2,222	2,288	2,372	2,314	2,459	2,422	2,513	2,601	2,607	2,879
PELLISSIPPI STATE TECH	5,098	4,941	4,866	4,768	5,003	5,217	5,258	5,080	5,079	5,151
ROANE STATE	3,848	3,713	3,614	3,591	3,688	3,720	3,675	3,797	3,474	3,647
SOUTHWEST TENNESSEE**	9,755	9,945	9,416	9,019	8,640	7,852	7,359	7,338	7,059	7,743
VOLUNTEER STATE	3,369	3,611	3,783	3,904	4,129	4,236	4,198	4,107	4,138	4,295
WALTERS STATE	3,542	3,520	3,602	3,507	3,731	3,807	3,666	3,594	3,665	3,909
TOTAL COMMUNITY COLLEGES	43,425	43,255	42,658	42,395	43,697	43,825	43,143	42,823	42,001	44,871
TOTAL ALL INSTITUTIONS	135,497	135,620	134,225	135,093	136,885	138,946	139,668	140,694	138,747	143,431

\* Effective July 1, 1994 Memphis State University became University of Memphis

\*\* Effective July 1, 2000 State Technical Institute at Memphis (STIM) and Shelby State Community College (SSCC) were consolidated to form Southwest Tennessee Community College (STCC).

SOURCES: The Tennessee Econometric Model, State Board of Equalization, Tennessee Department of Education and the Higher Education Commission.

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